

OLA WATER AND SEWER SYSTEM

Financial Statements and Supplemental Information

June 30, 2022 and 2021

(with Independent Auditors' Report thereon)

OLA WATER AND SEWER SYSTEM

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Independent Auditors' Report

To the City Council
City of Ola, Arkansas

Opinion

We have audited the accompanying financial statements of the Ola Water and Sewer System (a municipal system) which comprise the statements of net position as of June 30, 2022 and 2021 and the related statements of income and expense and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

As discussed in note 1, the financial statements present only the Ola Water and Sewer System and are not intended to present fairly the net position of the City of Ola, Arkansas, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Ola Water and Sewer System, as of June 30, 2022 and 2021, and changes in net position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Ola Water and Sewer System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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; 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 Ola Water and Sewer System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. 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 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, including omissions, 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, 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 Ola Water and Sewer System'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Ola Water and Sewer System'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 an opinion on the financial statements that collectively comprise the Ola Water and Sewer System's basic financial statements. The supplemental information, disclosed in compliance with requirements for audits of United States Department of Agriculture Rural Development Borrowers' Accounting Records, is presented for purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 February 21, 2023 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

February 21, 2023

Shoptaw Zabala & Company, P.A.

OLA WATER AND SEWER SYSTEM

Statements of Net Position

June 30, 2022 and 2021

	<u>Assets</u>	<u>2022</u>	<u>2021</u>
Assets:			
Unrestricted cash	\$	118,670	116,352
Restricted cash		374,234	343,734
Total cash		492,904	460,086
Accounts receivable, net of allowance for doubtful accounts of \$3,100 in 2022 and 2021		38,637	32,811
Accrued revenues		-	2,353
Other assets		13,593	15,929
Net utility plant and equipment		5,747,702	6,068,562
Total assets		6,292,836	6,579,741
Liabilities:			
Accounts payable		15,071	33,823
Interdepartmental payable		953	-
Taxes payable		1,766	1,123
Accrued interest		5,242	5,452
Customer deposits		32,150	29,031
Deferred saintation revenue		5,463	-
Long-term liabilities:			
Due within one year		85,363	82,587
Due in more than one year		2,485,445	2,570,791
Total liabilities		2,631,453	2,722,807
Net Position:			
Net investment in capital assets		3,171,652	3,431,732
Restricted debt service, asset maintenance and customer deposits		374,234	343,734
Unrestricted		115,497	81,468
Total net position	\$	3,661,383	3,856,934

OLA WATER AND SEWER SYSTEM

Statements of Revenue and Expenses and Changes in Net Position

Years ended June 30, 2022 and 2021

	2022	2021
Operating revenue:		
Sales and service provided	\$ 389,461	393,609
Other revenue - including sanitation fees	49,372	16,477
Total operating revenue	<u>438,833</u>	<u>410,086</u>
Operating expenses:		
Professional fees	5,700	6,500
Insurance	8,663	9,722
City service charge	3,000	8,501
Utilities	57,066	51,188
Chemicals and supplies	36,063	40,327
Management fee	36,000	36,000
Repairs and maintenance	16,610	18,621
Personnel costs	9,033	24,044
Depreciation	324,455	333,920
Permits and licenses	10,850	13,028
Sanitation fees and taxes	33,691	-
Bad debt expense	962	-
Machine rental	425	3,850
Miscellaneous	13,291	4,238
Total operating expense	<u>555,809</u>	<u>549,939</u>
Loss from operations	(116,976)	(139,853)
Non-operating revenue and (expense):		
Interest expense	(78,739)	(84,320)
Interest income	164	395
Loss on disposal of assets	-	(2,514)
Total non-operating revenue and (expense)	<u>(78,575)</u>	<u>(86,439)</u>
Decrease in net position	(195,551)	(226,292)
Beginning net position	<u>3,856,934</u>	<u>4,083,226</u>
Ending net position	<u><u>\$ 3,661,383</u></u>	<u><u>3,856,934</u></u>

OLA WATER AND SEWER SYSTEM

Statements of Cash Flows

Years ended June 30, 2022 and 2021

Cash flows from operating activities:	2022	2021
Receipts from customers	\$ 385,988	394,205
Other operating cash receipts	49,372	16,477
Payments to vendors and service providers	(246,174)	(189,097)
Net cash provided by operating activities	<u>189,186</u>	<u>221,585</u>
Cash flows from capital and related financing activities:		
Purchases of utility plant and equipment	(3,594)	(39,914)
Repayment of notes payable	(82,571)	(101,518)
Proceeds from grants	5,463	-
Interest paid on revenue bonds and other notes	(78,949)	(84,513)
Net cash used by capital and related financing activities	<u>(159,651)</u>	<u>(225,945)</u>
Cash flows from non-capital and related financing activities:		
Customer deposits received, net	<u>3,119</u>	<u>1,921</u>
Net cash provided by non-capital and related financing activities	<u>3,119</u>	<u>1,921</u>
Cash flows from investing activities:		
Interest received	<u>164</u>	<u>395</u>
Net cash provided by investing activities	<u>164</u>	<u>395</u>
Increase (decrease) in cash	32,818	(2,044)
Cash, beginning of year	<u>460,086</u>	<u>462,130</u>
Cash, end of year	<u>\$ 492,904</u>	<u>460,086</u>

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements

June 30, 2022 and 2021

(1) ACCOUNTING POLICIES

(a) Nature of Operations

Ola Water and Sewer System (the "System") is engaged in providing water, sewer and sanitation services to the City of Ola, Arkansas and the surrounding community. The System also provides water service to Casa, another municipality in Yell County, Arkansas.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(c) Utility Plant and Equipment

Utility plant and equipment are recorded at cost, including interest on funds borrowed to finance the construction of major capital additions. The cost of the utility plant is being depreciated over the estimated useful lives of the assets using straight-line depreciation.

Estimated useful lives are as follows:

<u>Assets</u>	<u>Useful Life</u>
Water System	7-50 years
Sewer System	7-50 years
Office Equipment	5-10 years

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 the depreciation reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the City Council has the right, subject to regulatory authority, to adopt ordinances to increase user rates, obtain additional bond funding, or delay repairs and replacements until funds are available.

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(d) Basis of Accounting

The Ola Water and Sewer System uses the accrual basis of accounting in preparing its financial statements. Revenues are recognized as earned and expenses are recognized as incurred.

(e) Revenue Recognition, Contract Assets and Contract Liabilities

In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606) and related amendments (“ASC 606”), the System recognizes revenue when performance obligations are satisfied. Generally, the System’s performance obligations are satisfied when control of water and sewer services are transferred. 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 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). Effective July 1, 2020, the System adopted ASC 606, which provides accounting guidance on the recognition of revenues from contracts. The adoption of ASC 606 did not result in a change of timing of the System’s revenue recognition.

(f) Organization

Ola Water and Sewer System is a municipally operated system and is governed by the City Council of the City of Ola, Arkansas. The Ola Water and Sewer System is a proprietary fund type used to account for activities conducted for the public (enterprise fund). The System applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

(g) Cash

For purposes of the statements of cash flows, the System considers cash to be cash in banks, including time deposits.

(h) 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.

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(i) Customer Receivables

Customer receivables are due the tenth business day of the month following customer billing. If an account is not paid by the eleventh business day of the month following billings, a late fee for the current unpaid water and sewer charges is assessed. The System does not assess financial charges on unpaid accounts. If an account is 25 days in arrears, the account is subject to disconnection. If there is no customer response, the meter is locked as disconnection is implemented. If the account is not paid for two consecutive months without payment the customer account is closed and any balance remaining in excess of meter security deposits are written off as a bad debt. For the year ended June 30, 2022, there were 14 accounts written off totaling \$962. Management has determined the allowance for doubtful accounts by considering an analysis of prior period write-offs and current account risk assessments. The allowance for doubtful accounts was \$3,100 at June 30, 2022 and 2021.

(j) 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 amounts shown for bonds and notes payable approximate fair value since these instruments are carried at prevailing market interest rates.

(2) UTILITY PLANT AND EQUIPMENT

Utility plant and equipment consisted of the following at June 30, 2022 and 2021:

	2022	2021
Water system	\$5,856,565	5,852,971
Sewer system	3,661,686	3,661,686
Office equipment	5,584	5,584
	<u>9,523,835</u>	<u>9,520,241</u>
Less accumulated depreciation	<u>3,776,133</u>	<u>3,451,679</u>
	<u>\$5,747,702</u>	<u>6,068,562</u>

Activity of the System's utility, plant and equipment for the year 2022 is as follows:

	Balance at June 30, 2021	Additions	Transfers / (Disposals)	Balance at June 30, 2022
Water system	\$ 5,852,971	3,594	-	5,856,565
Sewer system	3,661,686	-	-	3,661,686
Office equipment	5,584	-	-	5,584
	<u>\$ 9,520,241</u>	<u>3,594</u>	<u>-</u>	<u>9,523,835</u>

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(3) RESTRICTED CASH

At June 30, 2022 and 2021, the System had restricted cash shown as follows:

	2022	2021
Meter fund	\$ 28,112	24,993
Depreciation funds	84,085	98,123
Bond, interest and debt service fund	262,037	220,618
	<u>\$ 374,234</u>	<u>343,734</u>

The System is required to maintain a debt service fund for the payment of principal and interest in the event the System lacks adequate funds for those payments. The required reserve funding as of June 30, 2022 is \$90,008. The System has maintained the required bond and interest fund amounts based on bond ordinances.

The City of Ola Water and Sewer System is required by the bond agreements to maintain a depreciation fund that is reserved for the replacement of related projects and cannot be used without prior written approval of the lending agency.

(4) LONG-TERM NOTES AND BONDS PAYABLE

Long-term notes and revenue bonds payable collateralized by a pledge of water and sewer revenue consisted of the following at June 30, 2022 and 2021:

	2022	2021
United States Department of Agriculture, Rural Development Agency water improvement 4% revenue bonds, Series 2011, due in monthly installments of \$4,675, including interest. The bonds will mature in July, 2050.	\$ 945,377	963,271
Arkansas Natural Resource Commission 4.75% (2.75% effective June 1, 2017) notes payable due in semi-annual installments of \$19,070 beginning in June 2012, including interest. The bonds will mature in June, 2035.	404,816	431,277

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

	<u>2022</u>	<u>2021</u>
United States Department of Agriculture, Rural Development Agency water improvement 5% revenue bonds, Series 1990, due in monthly installments of \$640, including interest. The bonds will mature in January, 2029.	42,896	48,283
Arkansas Natural Resource Commission 5% note payable due in annual installments of \$3,640, including interest. The bonds will mature in March, 2032.	28,105	30,233
United States Department of Agriculture, Rural Development Agency water improvement 1.625% revenue bonds, Series 2018, due in monthly installments of \$2,718, including interest. The bonds will mature in December, 2058.	895,519	913,424
Arkansas Natural Resource Commission 5% note payable due in annual installments of \$3,099, including interest. The bonds will mature in June, 2027.	13,429	15,741
Arkansas Natural Resource Commission 5% note payable. The note is due in annual installments aggregating \$12,397 beginning in June, 2012. This note will mature in June, 2031.	88,126	95,736
United States Department of Agriculture, Rural Development Agency water improvement 4.375% revenue bonds, Series 2009, due in monthly installments of \$803, including interest. The bonds will mature in July, 2049.	<u>152,540</u>	<u>155,413</u>
	2,570,808	2,653,378
Less current installments	<u>85,363</u>	<u>82,587</u>
	<u>\$2,485,445</u>	<u>2,570,791</u>

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

Maturities on long-term debt for each of the years ending June 30, 2023 through 2028 and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 85,363	77,944	163,307
2024	88,194	75,113	163,307
2025	91,189	72,118	163,307
2026	94,278	69,029	163,307
2027	97,504	65,818	163,322
2028 and thereafter	2,114,280	1,147,431	3,261,711
	<u>\$2,570,808</u>	<u>1,507,453</u>	<u>4,078,261</u>

Interest expense incurred for 2022 and 2021 totaled \$78,739 and \$84,321, respectively.

Activity of the long-term debt for 2022 consists of the following:

	<u>Balance at June 30, 2021</u>	<u>Principal Payments</u>	<u>Loan Advance</u>	<u>Balance at June 30, 2022</u>
United States Department of Agriculture Rural Development total outstanding notes	\$ 2,080,392	44,060	-	2,036,332
Arkansas Natural Resource Commission total outstanding notes	<u>572,986</u>	<u>38,510</u>	<u>-</u>	<u>534,476</u>
	<u>\$ 2,653,378</u>	<u>82,570</u>	<u>-</u>	<u>2,570,808</u>

(5) METER DEPOSIT FUND

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

	<u>2022</u>	<u>2021</u>
Cash in fund	\$ 28,112	24,993
Customer meter deposits	<u>32,150</u>	<u>29,031</u>
Meter deposit cash funds under the reported liability	<u>\$ (4,038)</u>	<u>(4,038)</u>

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(6) ACCOUNTS RECEIVABLE

The accounts receivable due for water, sewer and sanitation services at June 30, 2022 and 2021 are as follows:

	2022	2021
Current (0-30 days)	\$ 41,603	35,516
Over 30 days	134	395
Total accounts receivable	41,737	35,911
Allowance for doubtful accounts	(3,100)	(3,100)
Net accounts receivable	<u>\$ 38,637</u>	<u>32,811</u>

(7) CONCENTRATIONS

The Ola Water and Sewer System serves consumers in Ola, Arkansas and surrounding local areas. The System also provides water to Casa, Arkansas in accordance with an agreement which establishes a contract rate of \$1.55 per 1,000 gallons of consumption. Service to Casa accounted for approximately 62% and 56% of consumption in the years ended June 30, 2022 and 2021, respectively.

All funds deposited in financial institutions were insured by the FDIC insurance in addition to a pledge of securities by the financial institution holding the deposits.

(8) MANAGEMENT FEE

The System is subject to a service agreement with an independent contractor who provides system maintenance and meter reading services. The terms of the agreement include a flat rate fee assessment based on the number of active metered service locations. Additional charges may be assessed based on costs incurred for materials and supplies used in maintaining and repairing customer service lines. Management fees for 2022 and 2021 totaled \$36,000 and \$36,000, respectively.

(9) CITY SERVICE CHARGE

During 2022, the City of Ola charged the System for dedicated personnel costs processed as part of the City's master payroll and employee benefits functions. The System processed personnel costs for which it was reimbursed by the City's street department in the amount of \$9,033.

The total interdepartmental charges assessed by the City to the System were as follows:

	2022	2021
Personnel services	\$ 7,196	-
Payroll taxes	612	-
Employee pensions	1,225	-
Equipment usage	3,000	8,501
Total city service charges	<u>\$ 12,033</u>	<u>8,501</u>

The System owed the City a balance of \$953 for interdepartmental charges as of June 30, 2022.

(10) SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 21, 2023, which is the date the financial statements were available to be issued.

OLA WATER AND SEWER SYSTEM

Notes to Financial Statements, Continued

(12) DEFERRED SANITATION REVENUE

During 2022, the System adopted a resolution to add sanitation services to its activities. The System bills its customers a monthly fee for these services in advance of the period in which the services are provided. As of June 30, 2022, the System billed \$5,463 for July which is reported as deferred sanitation revenue.

OLA WATER AND SEWER SYSTEM

Supplemental Information Disclosed in Compliance with
Requirements for Audits of United States Department
of Agriculture Rural Development and Revolving Loan
Funds for Municipalities' Accounting Records

OLA WATER AND SEWER SYSTEM

Supplemental Information

Years ended June 30, 2022 and 2021

WATER CONSUMPTION

Water consumption for the year ended December 31 (gallons):

	<u>2022</u>	<u>2021</u>
Residential and small business	35,848,342	42,687,031
Casa	<u>58,464,470</u>	<u>54,418,980</u>
Total water consumed	<u>94,312,812</u>	<u>97,106,011</u>

Cost of water provided per thousand gallons consumed:

2022

Operating expenses	\$ 137,262	divided by 94,312,812 gal. =	1.46	/ thousand
Depreciation	<u>147,121</u>	divided by 94,312,812 gal. =	<u>1.56</u>	/ thousand
	<u>\$ 284,383</u>		<u>3.02</u>	/ thousand

2021

Operating expenses	\$ 148,500	divided by 97,106,011 gal. =	1.53	/ thousand
Depreciation	<u>158,813</u>	divided by 97,106,011 gal. =	<u>1.64</u>	/ thousand
	<u>\$ 307,313</u>		<u>3.16</u>	/ thousand

The existing standard water rate schedule for the operations of the water and sewer system is as follows for June 30, 2022:

<u>Customers within the city limits</u>			
First	First 1,000 gallons	\$17.00	
Next	2,000-5,000 gallons	3.00	/ thousand
Next	Over 5,000 gallons	2.50	/ thousand
<u>Customers outside the city limits</u>			
First	First 1,000 gallons	\$19.00	
Next	2,000-5,000 gallons	3.00	/ thousand
Next	Over 5,000 gallons	2.50	/ thousand

Base rates increase with service locations that include higher volume meters. The disclosed water rates are unchanged from 2022. Sewer rates include a base fee of \$19.50 and an additional charge based on usage per 1,000 gallons of water use. Higher base fees apply for service meters of larger size. The Casa water rate is \$1.55 per 1,000 gallons of use. Sanitation fees total \$18.00 per collection unit for in-city customers and \$21.00 for customers outside of city limits. An additional \$9.00 fee is assessed for each additional container used.

OLA WATER AND SEWER SYSTEM

Supplemental Information, Continued

PRINCIPAL OFFICER AT JUNE 30, 2022:

Mayor: Jeff Black

INSURANCE

<u>Company</u>	<u>Description</u>	<u>Amount</u>
Arkansas Municipal League March 4, 2021 to March 3, 2022	Water and sewer treatment plant, water tanks and transmitter equipment	\$ 3,731,062
Arkansas Fidelity Bond Trust Fund administered by Arkansas Governmental Bonding Board	Blanket fidelity bond	\$ 250,000

DEBT MATURITY SCHEDULES

Five year amortization schedule of long-term notes and bonds payable:

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(Series 1990):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 7,680	5,659	2,021	37,237
2024	7,680	5,946	1,734	31,291
2025	7,680	6,255	1,425	25,036
2026	7,680	6,575	1,105	18,461
2027	7,680	6,912	768	11,549
2028 and after	12,037	11,549	488	-

OLA WATER AND SEWER SYSTEM

Supplemental Information, Continued

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(Series 2009):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 9,636	3,035	6,601	149,505
2024	9,636	3,136	6,500	146,369
2025	9,636	3,293	6,343	143,076
2026	9,636	3,440	6,196	139,636
2027	9,636	3,594	6,042	136,042
2028 and after	212,434	136,042	76,392	-

Arkansas Soil and Conservation Commission note payable:

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 3,639	2,235	1,404	25,870
2024	3,639	2,346	1,293	23,524
2025	3,639	2,463	1,176	21,061
2026	3,639	2,587	1,052	18,474
2027	3,639	2,716	923	15,758
2028 and after	18,195	15,758	2,437	-

OLA WATER AND SEWER SYSTEM

Supplemental Information, Continued

Arkansas Soil and Conservation Commission note payable:

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 12,397	7,991	4,406	80,135
2024	12,397	8,390	4,007	71,745
2025	12,397	8,810	3,587	62,935
2026	12,397	9,250	3,147	53,685
2027	12,397	9,713	2,684	43,972
2028 and after	49,604	43,972	5,632	-

United States Department of Agriculture Rural Development Water and Sewer Revenue Bond:
(Series 2011):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 56,100	18,625	37,475	926,752
2024	56,100	19,384	36,716	907,368
2025	56,100	20,173	35,927	887,195
2026	56,100	20,995	35,105	866,200
2027	56,100	21,851	34,249	844,349
2028 and after	1,294,347	844,349	449,998	-

Arkansas Natural Resource Commission note payable:

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 38,140	27,193	10,947	377,623
2024	38,140	27,947	10,193	349,676
2025	38,140	28,720	9,420	320,956
2026	38,140	29,515	8,625	291,441
2027	38,140	30,333	7,807	261,108
2028 and after	291,294	261,108	30,186	-

OLA WATER AND SEWER SYSTEM

Supplemental Information, Continued

United States Department of Agriculture Rural Development Water and Sewer Revenue Bonds,
(Series 2018):

<u>Year</u>	<u>Total Payment</u>	<u>Principal Retirement</u>	<u>Interest Requirement</u>	<u>Remaining Principal</u>
2023	\$ 32,616	18,198	14,418	877,322
2024	32,616	18,496	14,120	858,826
2025	32,616	18,799	13,817	840,027
2026	32,616	19,106	13,510	820,921
2027	32,616	19,419	13,197	801,502
2028 and after	1,023,778	801,502	222,276	-

OLA WATER AND SEWER SYSTEM

Departmental Statement of Net Position

Year ended June 30, 2022

	Total	Water	Sewer and Sanitation
Assets:			
Cash in bank	\$ 118,670	118,670	-
Restricted cash	374,234	287,949	86,285
Total cash	492,904	406,619	86,285
Accounts receivable, less allowance for doubtful accounts of \$3,100 for 2022	38,637	23,182	15,455
Other assets	13,593	13,593	-
Net utility plant and equipment	5,747,702	2,086,016	3,661,686
Total assets	6,292,836	2,529,410	3,763,426
Liabilities:			
Accounts payable	15,071	5,118	9,953
Interdepartmental payable	953	953	-
Taxes payable	1,766	1,260	506
Accrued interest	5,242	4,285	957
Customers' deposits	32,150	32,150	-
Deferred sanitation revenue	5,463	-	5,463
Long-term liabilities:			
Due within one year	85,363	67,166	18,197
Due in more than one year	2,485,445	1,608,123	877,322
Total liabilities	2,631,453	1,719,055	912,398
Net position:			
Net investment in capital assets	3,171,652	406,442	2,765,210
Restricted debt service, asset maintenance and customer deposits	374,234	287,949	86,285
Unrestricted	115,497	115,964	(467)
Total net position	\$ 3,661,383	810,355	2,851,028

OLA WATER AND SEWER SYSTEM

Departmental Statement of Revenue and Expenses and Changes in Net Assets

Year ended June 30, 2022

	Water	Sewer and Sanitation	Total
Operating revenue:			
Sales and service provided	\$ 267,231	122,230	389,461
Other revenue (including sanitation fees)	14,424	34,948	49,372
Total operating revenue	<u>281,655</u>	<u>157,178</u>	<u>438,833</u>
Operating expenses:			
Professional fees	3,990	1,710	5,700
Insurance	3,465	5,198	8,663
City services charge	2,100	900	3,000
Utilities	29,227	27,839	57,066
Chemicals and supplies	35,151	912	36,063
Management fee	25,200	10,800	36,000
Repairs and maintenance	14,174	2,436	16,610
Personnel costs	6,323	2,710	9,033
Depreciation	147,121	177,334	324,455
Permits and licenses	5,473	5,377	10,850
Sanitation fees and taxes	-	33,691	33,691
Bad debt expense	962	-	962
Machine rental	-	425	425
Miscellaneous	11,197	2,094	13,291
Total operating expenses	<u>284,383</u>	<u>271,426</u>	<u>555,809</u>
Net operating expense	(2,728)	(114,248)	(116,976)
Non-operating revenue and (expense):			
Interest expense	(65,262)	(13,477)	(78,739)
Interest income	164	-	164
Total non-operating revenue and (expense)	<u>(65,098)</u>	<u>(13,477)</u>	<u>(78,575)</u>
Decrease in net position	<u>\$ (67,826)</u>	<u>(127,725)</u>	(195,551)
Beginning net position			<u>3,856,934</u>
Ending net position			<u>\$3,661,383</u>

OLA WATER AND SEWER SYSTEM

Departmental Statement of Revenue and Expenses and Changes in Net Assets

Year ended June 30, 2021

	Water	Sewer	Total
Operating revenue:			
Sales and service provided	\$ 269,106	124,503	393,609
Other revenue	13,631	2,846	16,477
Total operating revenue	<u>282,737</u>	<u>127,349</u>	<u>410,086</u>
Operating expenses:			
Professional fees	4,550	1,950	6,500
Insurance	4,629	5,093	9,722
City services charge	5,951	2,550	8,501
Utilities	27,680	23,508	51,188
Chemicals and supplies	40,285	42	40,327
Management fee	25,200	10,800	36,000
Repairs and maintenance	15,288	3,333	18,621
Personnel costs	16,831	7,213	24,044
Depreciation	158,813	175,107	333,920
Permits and licenses	4,637	8,391	13,028
Machine rental	-	3,850	3,850
Miscellaneous	3,449	789	4,238
Total operating expenses	<u>307,313</u>	<u>242,626</u>	<u>549,939</u>
Net operating expense	(24,576)	(115,277)	(139,853)
Non-operating revenue and (expense):			
Interest expense	(68,057)	(16,263)	(84,320)
Interest income	395	-	395
Loss on disposal of assets	(2,514)	-	(2,514)
Total non-operating revenue and (expense)	<u>(70,176)</u>	<u>(16,263)</u>	<u>(86,439)</u>
Decrease in net position	<u>\$ (94,752)</u>	<u>(131,540)</u>	(226,292)
Beginning net position			<u>4,083,226</u>
Ending net position			<u><u>\$3,856,934</u></u>

OLA WATER AND SEWER SYSTEM

Supplemental Schedule of Revenue and Expenses - Actual vs. Budget

Year ended June 30, 2022

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Operating revenue:			
Water	\$ 267,231	286,900	(19,669)
Sewer	122,230	129,600	(7,370)
Other revenue	<u>49,372</u>	<u>1,000</u>	<u>48,372</u>
Total operating revenues	<u>438,833</u>	<u>417,500</u>	<u>21,333</u>
Operating expenses:			
Professional fees and accounting	5,700	7,500	1,800
Management fees	36,000	36,000	-
Water and sewer chemicals	36,063	35,000	(1,063)
Utilities	57,066	54,000	(3,066)
Equipment	-	22,000	22,000
Repairs, maintenance and supplies	16,610	20,000	3,390
Insurance	8,663	9,850	1,187
City service charges	3,000	5,183	2,183
Personnel costs	9,033	15,607	6,574
Bad debts	962	-	(962)
Machine rental	425	-	(425)
Permits and licenses	10,850	3,500	(7,350)
Sanitation fees and taxes	33,691	-	(33,691)
Miscellaneous	<u>13,291</u>	<u>2,200</u>	<u>(11,091)</u>
Total operating expense	<u>231,354</u>	<u>210,840</u>	<u>(20,514)</u>
Net operating revenue before provision for depreciation	207,479	206,660	819
Depreciation	<u>324,455</u>	<u>188,807</u>	<u>(135,648)</u>
Net operating revenue (expense)	<u>(116,976)</u>	<u>17,853</u>	<u>(134,829)</u>
Non-operating revenue (expense):			
Interest income	164	-	164
Interest expense	<u>(78,739)</u>	<u>-</u>	<u>(78,739)</u>
Total non-operating revenue (expense)	<u>(78,575)</u>	<u>-</u>	<u>(78,575)</u>
Net revenue (expense)	<u><u>\$ (195,551)</u></u>	<u><u>17,853</u></u>	<u><u>(213,404)</u></u>

SHOPTAW, LABAHN & COMPANY, P.A.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Ola Water and Sewer System
City Council of Ola
Ola, 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 Ola Water and Sewer System (a component unit of the City of Ola, Arkansas), which comprise the statement of net position as of June 30, 2022, and the related statements of income and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ola Water and Sewer System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ola Water and Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of Ola Water and Sewer System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and significant deficiency.

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 System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be both a *material weakness* and significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ola Water and Sewer System'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ola Water and Sewer System's Response to Findings

Ola Water and Sewer System's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ola Water and Sewer System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 21, 2023

Shoptaw, Zabala & Company, P.A.

OLA WATER AND SEWER SYSTEM

Schedule of Findings and Responses

Year ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
*Material weakness identified:	Yes
*Significant deficiency identified that is considered to be a material weakness:	Yes
*Noncompliance material to financial statements noted:	No

Section II - Financial Statement Findings

Internal control over financial reporting

Finding no. 2022-001

Controls over segregation of accounting and reporting functions:

Condition: The System's management and staff lacks duties segregation and knowledge, needed to prepare the annual reporting function in accordance with generally accepted accounting principles relative to the System's financial preparation of its financial statements.

Criteria: Management of the System should continually monitor its operations and provide appropriate training so that staff will be knowledgeable of financial reporting requirements as they relate to the System's operations and controls.

Cause: The System has limited financial and human resources to adequately segregate financial and reporting duties.

Effect: Internal financial records are not prepared in accordance with generally accepted accounting principles and require material adjustments in order to conform with accounting standards.

Recommendation: Management should continually monitor operations and controls in order that it can be confident that material accounting and reporting errors have not occurred. Management and those in charge of governance should establish regular financial activity review procedures and document such reviews and approvals in its effort to control and monitor operations so that risk of material error is reduced. Management should also consider available training programs for staff that will strengthen their knowledge of generally accepted accounting principles as they relate to the operation and its reporting requirements.

OLA WATER AND SEWER SYSTEM

Schedule of Findings and Responses (continued)

Year ended June 30, 2022

Management response:

Management believes that given the size and complexity of the operation that it is impractical to implement fully-segregated duties. In light of management's effort to maintain appropriate controls, the City Mayor and members of the City Council will continually monitor the System's financial results. Members of management will refer to professional resources to assist in the maintenance and development of financial records and it believes that such efforts adequately support the System's cash basis accounting methods which are converted at reporting periods to accrual based presentation in accordance with generally accepted accounting principles under the advice of professional service providers and other resources.

Noncompliance

None noted

Questioned Costs

None noted

OLA WATER AND SEWER SYSTEM

Schedule of Prior Audit Findings and Resolution Matters

Year ended June 30, 2022

Section IV - Prior Audit Findings and Resolution Matters

Controls over segregation of accounting and reporting functions:

The System's management and staff lacks duties segregation and knowledge needed to prepare or take responsibility for the accounting and reporting function in order to apply generally accepted accounting principles relative to the System's financial transactions and the preparation of its financial statements.

Status of prior year condition:

Management's lack of duties segregation and knowledge of generally accepted accounting principles continues to remain an issue due to the practical nature and complexity of the operation. The finding is repeated with respect to the current year operations.