

**CITY OF OPPELO WATER / WASTEWATER WORKS**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**



**CITY OF OPPELO WATER / WASTEWATER WORKS**  
**DECEMBER 31, 2023 AND 2022**

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## **Independent Auditor's Report**

To the Honorable Mayor and City Council  
City of Oppelo Water/Wastewater Works  
Oppelo, Arkansas

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the City of Oppelo Water/Wastewater Works, as of and for the years ended December 31, 2023 and 2022, and the related notes to the 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 financial position of the City of Oppelo Water/Wastewater Works as of December 31, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted on 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 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 City of Oppelo Water/Wastewater Works 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 opinion.

#### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the water and sewer department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Oppelo, Arkansas, as of December 31, 2023 and 2022, the changes in its financial position, or, where applicable, 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 for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Oppelo Water/Wastewater Works' 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.

### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2024, on our consideration of the City of Oppelo Water/Wastewater Works' 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 the City of Oppelo Water/Wastewater Works' 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 City of Oppelo Water/Wastewater Works' internal control over financial reporting and compliance.

*Przybysz & Associates*

**Przybysz & Associates, CPAs, P.C.**

**Fort Smith, Arkansas**

**May 23, 2024**

## ***FINANCIAL STATEMENTS***

# CITY OF OPPELO WATER / WASTEWATER WORKS

## STATEMENTS OF NET POSITION

| AS OF DECEMBER 31,  | 2023                | 2022                |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| <b>Current Assets</b>                                     |                     |                     |
| Cash and cash equivalents                                 | \$ 150,660          | \$ 126,056          |
| Restricted checking accounts                              | 58,735              | 37,891              |
| Certificates of deposit                                   | 20,479              | 13,000              |
| Restricted investments                                    | 122,188             | 801,315             |
| Accounts receivable, net                                  | 33,715              | 34,557              |
| <b>Total Current Assets</b>                               | <b>385,777</b>      | <b>1,012,819</b>    |
| <b>Noncurrent Assets</b>                                  |                     |                     |
| <b>Capital Assets</b>                                     |                     |                     |
| Utility plant   | 3,885,132           | 3,105,677           |
| Machinery and equipment                                   | 266,356             | 266,356             |
| Furniture and fixtures                                    | 905                 | 905                 |
| Vehicles  | 76,094              | 68,276              |
| Construction in process                                   | -                   | 71,451              |
| <b>Total</b>  | <b>4,228,487</b>    | <b>3,512,665</b>    |
| Less accumulated depreciation                             | (3,053,286)         | (2,951,890)         |
| <b>Net Capital Assets</b>                                 | <b>1,175,201</b>    | <b>560,775</b>      |
| <b>Total Noncurrent Assets</b>                            | <b>1,175,201</b>    | <b>560,775</b>      |
| <b>Total Assets</b>                                       | <b>1,560,978</b>    | <b>1,573,594</b>    |
| <b>Deferred Outflows</b>                                  |                     |                     |
| Deferred amount on refunding of debt, net of amortization | 41,951              | 45,652              |
| <b>Total Deferred Outflows</b>                            | <b>41,951</b>       | <b>45,652</b>       |
| <b>Total Assets and Deferred Outflows</b>                 | <b>\$ 1,602,929</b> | <b>\$ 1,619,246</b> |

See accompanying notes to financial statements.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## STATEMENTS OF NET POSITION

| AS OF DECEMBER 31,                                       | 2023                | 2022                |
|--|---------------------|---------------------|
| <b>Liabilities and Net Position</b>                      |                     |                     |
| <b>Current Liabilities</b>                               |                     |                     |
| Accounts payable   | \$ 11,566           | \$ 9,070            |
| Due to general fund                                      | 16,791              | 21,307              |
| Sales tax payable  | 1,602               | 1,574               |
| Customer meter deposits                                  | 29,580              | 28,239              |
| Accrued interest   | 7,569               | 7,709               |
| Current maturity of long-term debt                       | 54,890              | 52,197              |
| <b>Total Current Liabilities</b>                         | <b>121,998</b>      | <b>120,096</b>      |
| <b>Long-Term Debt, net of unamortized bond discounts</b> | <b>2,324,713</b>    | <b>2,348,639</b>    |
| <b>Total Liabilities</b>                                 | <b>2,446,711</b>    | <b>2,468,735</b>    |
| <b>Net Position</b>                                      |                     |                     |
| Net investment in capital assets                         | (1,162,374)         | (1,106,878)         |
| Restricted   | 114,619             | 793,606             |
| Unrestricted   | 203,973             | (536,217)           |
| <b>Total Net Position (deficit)</b>                      | <b>(843,782)</b>    | <b>(849,489)</b>    |
| <b>Total Liabilities and Net Position</b>                | <b>\$ 1,602,929</b> | <b>\$ 1,619,246</b> |

See accompanying notes to financial statements.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| FOR THE YEARS ENDED DECEMBER 31,  | 2023                | 2022                |
|---|---------------------|---------------------|
| <b>Operating Revenue</b>  |                     |                     |
| Water and sewer revenues, less bad debts  | \$ 346,989          | \$ 307,728          |
| Late fees   | 8,861               | 6,137               |
| Other income  | 2,817               | 5,643               |
| <b>Total Operating Revenue</b>  | <b>358,667</b>      | <b>319,508</b>      |
| <b>Operating Expenses</b>   |                     |                     |
| Water purchases   | 108,835             | 59,579              |
| Salaries, wages, payroll taxes and benefits   | 80,207              | 90,784              |
| Office supplies   | 5,321               | 6,434               |
| Operating supplies  | 26,237              | 21,655              |
| Repairs and maintenance   | 22,798              | 28,335              |
| Auto expense  | 8,840               | 9,108               |
| Utilities   | 26,321              | 32,661              |
| Insurance   | 2,152               | 1,035               |
| Memberships, dues, and licenses   | 19,428              | 13,432              |
| Trustee fees  | 1,063               | 2,300               |
| Advertising   | -                   | 1,969               |
| Miscellaneous expenses  | 3,049               | 2,102               |
| Depreciation  | 122,108             | 114,141             |
| <b>Total Operating Expenses</b>   | <b>426,359</b>      | <b>383,535</b>      |
| <b>Net Loss From Operations</b>   | <b>(67,692)</b>     | <b>(64,027)</b>     |
| <b>Other Income (Expenses)</b>  |                     |                     |
| Interest income   | 28,783              | 8,943               |
| Interest expense, inclusive of amortization of bond premium and<br>amortization of deferred amount on advance refunding | (99,295)            | (88,069)            |
| Bond issue costs  | -                   | (100,897)           |
| Gain/loss on the sale of asset  | 3,000               | 7,140               |
| <b>Total Net Other Income (Expenses)</b>  | <b>(67,512)</b>     | <b>(172,883)</b>    |
| <b>Net Loss Before Transfers</b>  | <b>(135,204)</b>    | <b>(236,910)</b>    |
| <b>Operating Transfers</b>  | <b>140,911</b>      | <b>138,201</b>      |
| <b>Change in Net Position</b>   | <b>5,707</b>        | <b>(98,709)</b>     |
| <b>Net Position at Beginning of Year</b>  | <b>(849,489)</b>    | <b>(750,780)</b>    |
| <b>Net Position at End of Year</b>  | <b>\$ (843,782)</b> | <b>\$ (849,489)</b> |

See accompanying notes to financial statements.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## STATEMENTS OF CASH FLOWS

| FOR THE YEARS ENDED DECEMBER 31,  | 2023              | 2022              |
|---|-------------------|-------------------|
| <b>Cash Flows From Operating Activities</b>                                 |                   |                   |
| Cash receipts from customers  | \$ 360,878        | \$ 317,578        |
| Cash payments to suppliers for goods and services                           | (221,548)         | (176,103)         |
| Cash payments to employees for services                                     | (84,723)          | (88,575)          |
| <b>Net Cash Provided By Operating Activities</b>                            | <b>54,607</b>     | <b>52,900</b>     |
| <b>Cash Flows From Non-Capital and Related Financing Activities</b>         |                   |                   |
| Net transfer activity   | 140,911           | 138,201           |
| <b>Net Cash Provided By Non-Capital and Related Financing Activities</b>    | <b>140,911</b>    | <b>138,201</b>    |
| <b>Cash Flows From Capital and Related Financing Activities</b>             |                   |                   |
| Acquisition of property, plant and equipment                                | (736,535)         | (81,404)          |
| Proceeds from sale of equipment   | 3,000             | 7,140             |
| Loan proceeds   | 28,531            | -                 |
| Net proceeds from issuance of bonds   | -                 | 2,291,171         |
| Principal paid on debt  | (52,197)          | (1,668,476)       |
| Interest paid on debt   | (93,299)          | (85,725)          |
| <b>Net Cash Provided (Used) By Capital and Related Financing Activities</b> | <b>(850,500)</b>  | <b>462,706</b>    |
| <b>Cash Flows From Investing Activities</b>                                 |                   |                   |
| Net activity of restricted investments                                      | 679,127           | (630,245)         |
| Net purchase and reinvestment of certificates of deposit                    | (7,480)           | -                 |
| Interest income   | 28,783            | 8,943             |
| <b>Net Cash Provided (Used) By Investing Activities</b>                     | <b>700,430</b>    | <b>(621,302)</b>  |
| <b>Net Increase In Cash, Cash Equivalents and Restricted Cash</b>           | <b>45,448</b>     | <b>32,505</b>     |
| Cash, Cash Equivalents, and Restricted Cash At Beginning of Year            | 163,947           | 131,442           |
| <b>Cash, Cash Equivalents, and Restricted Cash At End of Year</b>           | <b>\$ 209,395</b> | <b>\$ 163,947</b> |
| <b>Reconciliation to the Statement of Net Position</b>                      |                   |                   |
| Cash and cash equivalents   | \$ 150,660        | \$ 126,056        |
| Restricted checking accounts  | 58,735            | 37,891            |
| <b>Total Cash, Cash Equivalents, and Restricted Cash</b>                    | <b>\$ 209,395</b> | <b>\$ 163,947</b> |

See accompanying notes to financial statements.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## STATEMENTS OF CASH FLOWS

| FOR THE YEAR ENDED DECEMBER 31,  | 2023             | 2022             |
|--|------------------|------------------|
| <b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities</b> |                  |                  |
| Net loss from operations   | \$ (67,692)      | \$ (64,027)      |
| Adjustments to reconcile net income to net cash from operating activities:             |                  |                  |
| Depreciation   | 122,108          | 114,141          |
| (Increase) decrease in:  |                  |                  |
| Accounts receivable  | 842              | (1,604)          |
| Increase (decrease) in:  |                  |                  |
| Accounts payable   | 2,496            | 2,507            |
| Due to general fund  | (4,516)          | 2,209            |
| Sales tax payable  | 28               | (102)            |
| Customer meter deposits  | 1,341            | (224)            |
| <b>Net Cash Provided By Operating Activities</b>                                       | <b>\$ 54,607</b> | <b>\$ 52,900</b> |

See accompanying notes to financial statements.

# **CITY OF OPPelo WATER / WASTEWATER WORKS**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**

### **Nature of Operations**

The City of Oppelo Water Wastewater Works (the Department) is a proprietary type fund and is a component unit of the City of Oppelo, Arkansas. The purpose of the Department is to provide and maintain water and sewer services to the residents of the City of Oppelo. Activities of the fund include administration, operation and maintenance of the water and sewer department, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Water and Sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure the integrity of the fund.

### **1. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

The Department's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The Department accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund 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 or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Department is considered to be a component unit of the City of Oppelo. These financial statements reflect only the Water Wastewater Works Fund of the City of Oppelo, Arkansas and, accordingly, do not reflect other activities, funds and account groups of the City.

#### **Financial Reporting**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Department. The Department accounts for its operations as an enterprise fund.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the Department considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, including restricted cash.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 1. Summary of Significant Accounting Policies (continued)

#### Income Taxes

The Department is exempt from income taxes as a governmental agency.

#### Investments

Investments are presented at fair value. Investments, consist primarily certificates of deposit and accounts designated for construction, to service semi-annual bond payments, and a debt service reserve fund.

#### Accounts Receivable

Accounts receivable consists of sewer and water fees and surcharges billed to residential and commercial/industrial customers based on consumption. Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$9,701 and \$8,873 as of December 31, 2023 and 2022.

#### Capital Outlays And Depreciation

Capital assets are stated at cost. Depreciation is computed using the straight-line methods over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

|                         | Years   |
|-------------------------|---------|
| Utility plant           | 20 - 30 |
| Machinery and equipment | 5 - 30  |
| Furniture and fixtures  | 7       |
| Vehicles                | 5 - 10  |

It is the Department's policy to capitalize all asset purchases.

#### Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The balance of \$41,951 as of December 31, 2023, is shown as deferred outflows on the statement of position and is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Amortization of the deferred loss totaled \$6,169 for the year ended December 31, 2023.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 1. Summary of Significant Accounting Policies (continued)

#### Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. These deposits are refundable to customers when the Department no longer services the customer. The Department uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

#### Due to General Fund

The City of Oppelo pays all wages and related taxes and benefits of the Department employees and bills the Department quarterly for services provided. The Department paid the City \$80,207 and \$90,783 for payroll and related expenses for the years ended December 31, 2023 and 2022, respectively. The Department had a liability of \$16,791 and \$21,307 at December 31, 2023 and 2022, respectively for the 4th quarter wages, taxes and benefits owed.

#### Unamortized Bond Discount

The original issue discount incurred with the issuance of the 2022 Water and Sewer Refunding and Construction Revenue Bonds represents the additional interest (over and above any cash interest) over the term of the bond. This original issue discount is being amortized using the straight-line method over the life of the bond which is 30 years. Amortization of the bond discount was \$4,055 and \$1,622 for the years ended December 31, 2023 and 2022, and is included with interest expense on the statement of revenues, expenses and changes in net position.

#### Net Position

Net position of the Department are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

*Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted* - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 1. Summary of Significant Accounting Policies (continued)

#### Net Position (continued)

*Unrestricted* - This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets".

The Department does not have a policy addressing whether it considers restricted or unrestricted to have been spent when expenditures are incurred for purposes when both are available. Department personnel decide which resources to use at the time the expenditures are incurred. For classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted.

#### Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of fees from water and sewer usage. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities.

#### Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

#### New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following new accounting standards which became effective or portions thereof became effective during the Commission's fiscal year.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. The purpose of this statement is to improve financial reporting issues related to PPPs.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance and financial reporting for subscription-based technology arrangements (SBITAs). The statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA.

These statements did not have any impact on the District's financial statements.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits with Financial Institutions

State statutes generally require that municipal funds be deposited in federally insured banks located in the state of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States government.

#### Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be recovered. At December 31, 2023 all of the Department's deposits were insured and/or collateralized. The bank balances and carrying amount of the Department's deposits held were as follows:

| Description | At December 31, 2023 |                 | At December 31, 2022 |                 |
|-------------|----------------------|-----------------|----------------------|-----------------|
|             | Bank Balance         | Carrying Amount | Bank Balance         | Carrying Amount |
| Insured     | \$ 210,027           | \$ 209,395      | \$ 164,310           | \$ 163,947      |
| Total       | \$ 210,027           | \$ 209,395      | \$ 164,310           | \$ 163,947      |

Deposits as reported in the following statement of net position captions:

| As Of December 31,           | 2023       | 2022       |
|------------------------------|------------|------------|
| Cash and cash equivalents    | \$ 150,660 | \$ 126,056 |
| Restricted checking accounts | 58,735     | 37,891     |
| Total                        | \$ 209,395 | \$ 163,947 |

#### Investments

Investments consist of certificates of deposit and accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due. The investments are stated at fair market value, which approximates cost.

| As of December 31, 2023                    | Market     | Weighted Avg. Maturity | Credit Rating |
|--|------------|------------------------|---------------|
| <b>Bond Funds</b>                          |            |                        |               |
| Federated Hermes Treasury Obligations Fund | \$ 122,188 | 9 days                 | AAAm, Aaa-mf  |
| Certificates of Deposit                    | 20,479     | 300 days               | N/A           |
| Total                                      | \$ 142,667 |                        |               |

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits with Financial Institutions (continued)

#### Investments (continued)

| As of December 31, 2022                    | Market     | Weighted Avg. Maturity | Credit Rating |
|--|------------|------------------------|---------------|
| <u>Bond Funds</u>                          |            |                        |               |
| Federated Hermes Treasury Obligations Fund | \$ 801,315 | 9 days                 | AAAm, Aaa-mf  |
| Certificates of Deposit                    | \$ 13,000  | 300 days               | N/A           |
| Total                                      | \$ 814,315 |                        |               |

Investments as reported in the following Statement of Net Position captions:

| As Of December 31,      | 2023       | 2022       |
|-------------------------|------------|------------|
| <u>Current Assets:</u>  |            |            |
| Certificates of deposit | \$ 20,479  | \$ 13,000  |
| Restricted investments  | \$ 122,188 | \$ 801,315 |
| Total                   | \$ 142,667 | \$ 814,315 |

#### Interest Rate Risk

Interest rate risk is the risk the changes in interest of debt investments will adversely affect the fair value of an investment. The Department's investments are not subject to interest rate risk as the investments are short-term in nature.

#### Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

At December 31, 2023 and 2022, the Department has \$122,188 and \$801,315, respectively, in government mutual fund accounts that primarily invest in U.S. Treasury and government securities which are investments permitted by Arkansas statutes and generally considered to be risk-free as they have the backing of the government.

The Department also has \$20,479 and \$13,000 in a certificates of deposit at December 31, 2023 and 2022. This account was entirely FDIC insured for both years.

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held by the Department or by an agent of the Department are in the City's name.

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits with Financial Institutions (continued)

#### Fair Value Measurements

The District's investments are categorized using fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categories are as follows:

Level 1 - Quoted prices for identical investments in active markets.

Level 2 - Quoted prices for identical investments in markets that are not active.

Level 3 - Unobservable inputs

The following table represents the Department's investments that are measured at fair value on a recurring basis at December 31, 2023:

|                                      | Level 1    | Level 2 | Level 3 | Total      |
|--------------------------------------|------------|---------|---------|------------|
| Federated Hermes Treasury Obligation | \$ 122,188 | \$ -    | \$ -    | \$ 122,188 |
| Certificate of deposit               | 20,479     | -       | -       | 20,479     |
| Total                                | \$ 142,667 | \$ -    | \$ -    | \$ 142,667 |

### 3. Restricted Assets

Restricted assets consists of the following:

| As Of December 31,             | 2023       | 2022       |
|--------------------------------|------------|------------|
| Restricted checking account:   |            |            |
| Water meter fund               | \$ 39,523  | \$ 37,891  |
| Restricted investments:        |            |            |
| 2022 Bond Fund                 | \$ 45,945  | \$ 40,997  |
| 2022 Project Construction Fund | 77         | 687,531    |
| 2022 Debt Service Reserve Fund | 76,166     | 72,787     |
| Total restricted investments   | \$ 122,188 | \$ 801,315 |

**Water Meter Fund** - holds refundable customer deposits.

**2022 Bond Fund** - established to fund the semi-annual interest and annual principal payments of the 2022 Series Water and Sewer Refunding and Construction Revenue Bonds along with any trustee fees.

**2022 Project Construction Fund** - established to disburse funds for the project as described in Note 4.

**2022 Debt Service Reserve Fund** - established as a special fund as the name implies.

# CITY OF OPPERO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 4. Capital Assets

Activity of capital assets consists of the following:

| As Of                   | January 1,<br>2023 | Additions    | Retirements | December 31,<br>2023 |
|-------------------------|--------------------|--------------|-------------|----------------------|
| Utility plant           | \$ 3,105,677       | \$ 779,455   | \$ -        | \$ 3,885,132         |
| Machinery and equipment | 266,356            | -            | -           | 266,356              |
| Furniture and fixtures  | 905                | -            | -           | 905                  |
| Vehicles                | 68,276             | 28,531       | 20,713      | 76,094               |
| Construction in process | 71,451             | 708,004      | 779,455     | -                    |
| Total                   | \$ 3,512,665       | \$ 1,515,990 | \$ 800,168  | \$ 4,228,487         |

| As Of                   | January 1,<br>2022 | Additions | Retirements | December 31,<br>2022 |
|-------------------------|--------------------|-----------|-------------|----------------------|
| Utility plant           | \$ 3,105,677       | \$ -      | \$ -        | \$ 3,105,677         |
| Machinery and equipment | 256,403            | 9,953     | -           | 266,356              |
| Furniture and fixtures  | 905                | -         | -           | 905                  |
| Vehicles                | 68,276             | -         | -           | 68,276               |
| Construction in process | -                  | 71,451    | -           | 71,451               |
| Total                   | \$ 3,431,261       | \$ 9,953  | \$ -        | \$ 3,441,214         |

Construction in progress of \$71,451 at December 31, 2022 consists primarily of engineering fees for the sewer rehabilitation project. The project is to be construction with proceeds from the 2022 bond issue and will include replacement, repair, and construction of Stations 1 and 2, replacement and repair of a line running from Station 2 to Station 1 to the sewer retention ponds, which will reduce the demand on Station 1. The total cost was \$779,455 and completed in 2023.

### 5. Long-Term Debt

On May 17, 2022, the Department issued Water and Sewer Revenue Refunding Bonds, Series 2022 in the amount of \$2,465,000. Proceeds from the bonds were used to pay in full the Series 2012 Water and Sewer Revenue Refunding Bonds that had an outstanding principal balance of \$1,560,000, plus interest, and cost of issuance fees totaling \$100,897. The remaining bond proceeds will be used to fund the project noted on note 4.

# CITY OF OPPETO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 5. Long-Term Debt (continued)

Long-term debt of the District consists of:

| As Of December 31,  | 2023         | 2022         |
|---|--------------|--------------|
| \$2,465,000 Water and Sewer Refunding and Construction Revenue Bonds, Series 2012 with coupon rates ranging from 2.75% to 4.00%. Payments are made semi-annually for interest and principal through December 2052. The bonds are secured by substantially all assets and revenues of the water and sewer system.      | \$ 2,420,000 | \$ 2,465,000 |
| \$20,229 Farmers and Merchants Bank note dated June 1, 2020. \$5,675.74 is made annually including interest of 4.74% with final payment of unpaid principal and interest due June 1, 2023. The note was used to purchase a 2019 Dodge Ram truck and is secured by that truck.   | -            | 5,404        |
| \$10,100 Farmers and Merchants Bank note dated August 31, 2021. \$3,694.07 is made annually including interest of 4.74% with final payment of unpaid principal and interest due August 27, 2024. The note was used to purchase a John Deere 520M Loader and is not secured.   | -            | 1,793        |
| \$28,531 Farmers and Merchants Bank note dated August 3, 2023. \$6,894.53 will be made annually starting September 3, 2024, including interest of 6.37% with final payment of unpaid principal and interest due September 3, 2028. The note was used to purchase a 2016 Dodge Ram truck and is secured by that truck. | 28,531       | -            |
| Total   | 2,448,531    | 2,472,197    |
| Less current maturities   | 54,890       | 52,197       |
| Long-term debt  | 2,393,641    | 2,420,000    |
| Less unamortized bond discounts   | 68,928       | 71,361       |
| Long-Term Debt  | \$ 2,324,713 | \$ 2,348,639 |

Debt is scheduled to mature as follows:

| December 31, | Direct Placements |           | Direct Borrowings |          |
|--------------|-------------------|-----------|-------------------|----------|
|              | Principal         | Interest  | Principal         | Interest |
| 2024         | \$ 50,000         | \$ 90,144 | \$ 4,890          | \$ 2004  |
| 2025         | 50,000            | 88,769    | 5,368             | 1527     |
| 2026         | 55,000            | 87,256    | 5,714             | 1180     |
| 2027         | 55,000            | 85,606    | 6,084             | 811      |
| 2028         | 55,000            | 83,887    | 6,475             | 419      |

# CITY OF OPPELO WATER / WASTEWATER WORKS

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 5. Long-Term Debt (continued)

| December 31, | Direct Placements |              | Direct Borrowings |          |
|--------------|-------------------|--------------|-------------------|----------|
|              | Principal         | Interest     | Principal         | Interest |
| 2029-2033    | 315,000           | 389,741      | -                 | -        |
| 2034-2038    | 370,000           | 329,788      | -                 | -        |
| 2039-2043    | 450,000           | 250,200      | -                 | -        |
| 2044-2048    | 530,000           | 152,600      | -                 | -        |
| 2049-2053    | 490,000           | 40,200       | -                 | -        |
| Total        | \$ 2,420,000      | \$ 1,598,191 | \$ 28,531         | \$ 5,941 |

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

| As Of               | January 1, 2023 | Additions | Retirements | December 31, 2023 | Due Within One Year |
|---------------------|-----------------|-----------|-------------|-------------------|---------------------|
| Water and Sewer     |                 |           |             |                   |                     |
| Refunding & Const.  |                 |           |             |                   |                     |
| Revenue Bonds       | \$ 2,465,000    | \$ -      | \$ 45,000   | \$ 2,420,000      | \$ 50,000           |
| Farmers & Merchants | 7,197           | 28,531    | 7,197       | 28,531            | 4,890               |
| Total               | \$ 2,472,197    | \$ 28,531 | \$ 52,197   | \$ 2,448,531      | \$ 54,890           |

| As Of               | January 1, 2022 | Additions    | Retirements  | December 31, 2022 | Due Within One Year |
|---------------------|-----------------|--------------|--------------|-------------------|---------------------|
| Water and Sewer     |                 |              |              |                   |                     |
| Refunding & Const.  |                 |              |              |                   |                     |
| Revenue Bonds       | \$ 1,655,000    | \$ 2,465,000 | \$ 1,655,000 | \$ 2,465,000      | \$ 45,000           |
| Farmers & Merchants | 20,673          | -            | 13,476       | 7,197             | 7,197               |
| Total               | \$ 1,675,673    | \$ 2,465,000 | \$ 1,668,476 | \$ 2,472,197      | \$ 52,197           |

The 2022 Water and Sewer Refunding and Construction Bonds contain several provisions for loan default including: outstanding principal and interest become immediately due and payable, surrender possession of the Department and appoint a receiver to administer the department on behalf of the issuer until all defaults have bee cured; enforce any and all other rights and remedies by law.

In the event of default on the Farmers and Merchants Bank note, the Department would surrender the 2016 Dodge truck purchased with the borrowed funds.

# **CITY OF OPPELO WATER / WASTEWATER WORKS**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**

### **6. Bond Discount / Deferred Refunding**

The bond issue discounts incurred with the issuance of the 2012 Water and Sewer Refunding and Construction Revenue Bonds, subsequently replaced with the 2022 Water and Sewer Refunding and Construction Revenue Bonds totaling \$72,983, respectively, represent the additional interest (over and above any cash interest) over the term of the bonds. The original issue discounts are being amortized using the straight-line method over the lives of the bonds which are 24 and 30 years.

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The balance of \$41,951 and \$45,642 as of December 31, 2023 and 2022, is shown as deferred outflows on the Statement of Net Position and is being amortized over 13 years which is the remaining term of the old debt. Amortization of the deferred loss totaled \$6,169 and \$2,468 for the year ended December 31, 2023 and 2022, and is included with interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

### **7. Rate Covenant**

The Series 2022 City of Oppelo, Arkansas, Water and Sewer Refunding and Construction Revenue Bonds require the Department's rates and charges fixed for services together with proceeds of the County Sales Tax allocated to the Department, will produce revenues at least sufficient to (1) pay the Department's operation, repair and maintenance expenses, (2) make all required deposits to the debt service reserve fund for the bonds, and (3) leave a balance equal to 110% of the maximum annual debt service requirements for the bonds and all other additional parity obligations. The Department was in compliance with the rate covenant for the year ended December 31, 2023.

### **8. Interfund Transfers**

The Department received transfers totaling \$140,911 and \$138,201 from the City during the years ended December 31, 2023 and 2022 to pay certain debt and other operating expenses.

### **9. Risk Management**

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department carries property and liability insurance as well as workers' compensation insurance through Arkansas Municipal League.

There has been no significant reduction in the Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

# **CITY OF OPPELO WATER / WASTEWATER WORKS**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**

### **10. Concentrations of Credit Risks**

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

### **11. Subsequent Events**

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2023 through May 23, 2024, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

***ADDITIONAL REQUIRED REPORT***



**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***

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To the Honorable Mayor and City Council  
City of Oppelo Water/Wastewater Works  
Oppelo, 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 City of Oppelo Water/Wastewater Works ("the Department"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Department's financial statements, and have issued our report thereon dated May 23, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 over financial reporting 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 may exist that have not been identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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 financial statements. 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*.

### **Purpose of this Report**

This 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 Department's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Przybysz & Associates*

**Przybysz & Associates, CPAs, P.C.  
Fort Smith, Arkansas  
May 23, 2024**