

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND
P.O. BOX 9
COTTER, ARKANSAS 72626
(870) 435-6325

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021

BRIAN L. HAAS
CERTIFIED PUBLIC ACCOUNTANT
1616 HIGHWAY 62 WEST
MOUNTAIN HOME, ARKANSAS 72653
(870) 424-2181

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITOR'S REPORT | |
| Independent auditor's report | 1 - 3 |
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Management's discussion and analysis | 4 - 8 |
| FINANCIAL STATEMENTS | |
| Statement of fund net position - proprietary fund | 9 - 10 |
| Statement of revenues, expenses, and changes in fund net position - proprietary fund | 11 - 12 |
| Statement of cash flows - proprietary fund | 13 - 14 |
| Notes to financial statements | 15 - 24 |
| SUPPLEMENTAL INFORMATION | |
| Required supplementary information | 25 - 26 |
| Water and wastewater rates | 27 |
| Users by class | 28 |
| Report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with government auditing standards | 29 - 30 |
| Schedule of findings and responses | 31 - 32 |

BRIAN L. HAAS, CPA

Certified Public Accountant
1616 Highway 62 West
Mountain Home, AR 72653

Phone: (870) 424-2181

Fax: (870) 425-1339

Arkansas License No. 4723R

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Cotter Municipal Water and Wastewater Fund
P.O. Box 9
Cotter, Arkansas 72626

Report on Financial Statements

I have audited the accompanying financial statements of the City of Cotter Municipal Water and Wastewater Fund, as of and for the year ended December 31, 2021, and related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, I express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Cotter Municipal Water and Wastewater Fund as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Municipal Water and Sewer Fund and do not purport to and do not, present fairly the financial position of the City of Cotter, Arkansas as of December 31, 2021, the changes in its financial position, or where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not part of the basic 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 statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide assurance of the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The water budget, sewer budget, budgetary comparison information, users by class and water rates are presented for the purpose of additional analysis and are not a required part of the 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 my 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, I have also issued my report dated December 15, 2022, on my consideration of the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of 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 Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and compliance.



Brian Haas, CPA
Mountain Home, AR 72653

December 15, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cotter Municipal Water and Wastewater Fund, we offer readers of the Municipal Water and Wastewater Fund's financial statements this narrative overview and analysis of the Municipal Water and Wastewater Fund's financial performance during the fiscal year ended December 31, 2021. Please read it in conjunction with the Municipal Water and Wastewater Fund's financial statements, which follow this section.

The City of Cotter Municipal Water and Wastewater Fund's financial statements consist of only one proprietary fund. The Board operates a water utility for customers (members) on a fee for services and related costs basis. The Board is a non-profit entity.

FINANCIAL HIGHLIGHTS

As of December 31, 2021:

- The Municipal Water and Wastewater Fund's assets exceeded its liabilities by \$1,126,854 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,133,765.
- Total net assets are comprised of the following:

Capital assets, net of related debt of \$541,980, including property and equipment net of accumulated depreciation.
- Temporarily restricted assets of \$420,645 are reserved by constraints imposed by outside the Municipal Water and Wastewater Fund, such as debt covenants, grantors, laws or regulations.
- Unrestricted assets of \$164,229 represent portion available to maintain ongoing operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

- The Municipal Water and Wastewater Fund's annual audit report includes three major financial statements. These statements provide both long-term and short-term information about the Municipal Water and Wastewater Fund's overall status. Financial reporting at this level uses accrual basis accounting as in the private sector.
- The first of these statements is the Statement of Net Position - Proprietary Fund. This is the Municipal Water and Wastewater Fund's statement of financial position presenting information that includes all of the Municipal Water and Wastewater Fund's assets and liabilities with the difference reported as fund net position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipal Water and Wastewater Fund as a whole is improving or deteriorating.

- The second statement is the Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund. This statement reports how the Municipal Water and Wastewater Fund's equity changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund is to show the effectiveness of Municipal Water and Wastewater Fund's rate structure and related revenues to adequately cover the operational costs of providing water services to the Municipal Water and Wastewater Fund's membership.
- The third major statement is the Statement of Cash Flows. This statement presents cash flows provided by operations, investing and financing on a net change basis.

REQUIRED FINANCIAL STATEMENTS

- The financial statements of the Municipal Water and Wastewater Fund's report information of the Municipal Water and Wastewater Fund using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Fund Net Position - Proprietary Fund includes all of the Municipal Water and Wastewater Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Municipal Water and Wastewater Fund's creditors (liabilities). These also provide the basis for evaluating the capital structure of the Municipal Water and Wastewater Fund and assessing the liquidity and financial flexibility of the Municipal Water and Wastewater Fund's fund.
- All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund. This statement measures the success of the Municipal Water and Wastewater Fund's operations and can be used to determine whether the Municipal Water and Wastewater Fund has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.
- The final required financial statement is the Statement of Cash Flows - Proprietary Fund. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

FINANCIAL ANALYSIS OF THE MUNICIPAL WATER AND WASTEWATER FUND

- The Municipal Water and Wastewater Fund's net assets decreased due to an excess of operating expenses over revenue of \$114,141. However, a significant portion of this is the depreciation deduction. The Municipal Water and Wastewater Fund had a positive cash flow from operations of \$17,047. Total revenues were up from 2020 by \$9,129. Total operating expenses were up in 2021. In 2021, \$571,014 as compared to \$514,646 in 2020.

NET POSITION

- To begin our analysis, a summary of the Municipal Water and Wastewater Fund's Statement of Net Position - Proprietary Fund are presented in Table A-1.

Table A-1
The Water and Sewer Fund 's Net Position
December 31, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|--|--------------------|--------------------|
| Current and other assets | \$ 171,857 | \$ 172,434 |
| Capital and non-current assets | <u>989,973</u> | <u>1,217,785</u> |
| Total assets | 1,161,830 | 1,390,219 |
| Current liabilities | 7,628 | 62,453 |
| Long-term liabilities | <u>27,348</u> | <u>194,000</u> |
| Total liabilities | <u>34,976</u> | <u>256,453</u> |
| Fund net position | <u>1,126,853</u> | <u>1,133,765</u> |
| Invested in capital assets net of related debt | \$ 541,980 | \$ 411,698 |
| Temporarily restricted assets | 420,645 | 528,674 |
| Unrestricted assets | <u>164,229</u> | <u>193,393</u> |
| Total fund net position | <u>\$1,126,853</u> | <u>\$1,133,765</u> |

The Municipal Water and Wastewater Fund's net position decreased by \$15,084 over 2020.

Additional information regarding capital assets is available in the Notes to the Basic Financial Statements.

A portion of the net assets is either temporarily restricted as to the purposes they can be used for or they are invested in capital assets. Unrestricted net assets may be used to fund the Municipal Water and Wastewater Fund's programs in the next fiscal year. However, this does not mean that the Municipal Water and Wastewater Fund has significant surplus resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are less than currently available resources. The balance has remained similar to the prior years.

BUDGETARY HIGHLIGHTS

For 2021, the Municipal Water and Wastewater Fund's revenues were lower than budgeted estimates by \$28,284. Expenses were lower than budget estimates. Total operating expenses were approximately \$51,572 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

- Capital Assets

At the end of 2021, the Municipal Water and Wastewater Fund had invested \$3,603,013 in a broad range of assets, including land, water distribution system, equipment and vehicles.

This was only a slight increase over 2020. Additional information regarding Capital Assets is available in the Notes to the Basic Financial Statements.

| | |
|-------------------------------|--------------------|
| Land and land rights | \$ 66,220 |
| System and Improvements | 3,119,981 |
| Machinery & Equipment | 310,084 |
| Vehicles | <u>106,728</u> |
| Total property and equipment | 3,603,013 |
| Less accumulated depreciation | <u>(3,061,033)</u> |
| Property and equipment - net | \$ 541,980 |

- Debt Administration

At the end of 2021, the Municipal Water and Wastewater Fund's long-term debt consisted of the following:

| | |
|-----------------------------|-------------|
| Note payable - equipment | - |
| Note payable - Ductile Iron | <u>-</u> |
| Total long-term debt | <u>\$ -</u> |

More information about the Municipal Water and Wastewater Fund's debt is presented in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS NEXT YEAR'S BUDGET AND RATES

Some of the notable accomplishments of the Municipal Water and Wastewater Fund for 2021 were as follows:

- The City of Cotter, in joint venture with the City of Gassville, was able to pay off the Ductile Iron Phase I project loan and a new truck loan in 2021.
- The City of Cotter paid off the ADFA Revenue Bond originally issued in 2005 for the expansion of the Water Treatment Facility. Due to excess city sales and use tax revenue, we were able to pay off this obligation three and a half years earlier than scheduled - saving interest and service fees.
- In preliminary planning for a new Ductile Iron Phase II project and future waterline projects, the City held a Special Election to levy a 1% City Sales and Use Tax which passed in May, 2021.
- The City continues to set aside depreciable funds for future water projects i.e.. Water tower maintenance and painting.

CONTACTING THE MUNICIPAL WATER AND WASTEWATER FUND'S FINANCIAL MANAGER

- This financial report is designed to provide overview of the Municipal Water and Wastewater Fund's finances, comply with finance-related laws and regulations, and demonstrate the Municipal Water and Wastewater Fund's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the bookkeeper:

Melissa Gray
115 McLean Avenue
P.O. Box 9
Cotter, Arkansas 72626

Phone number: (870) 435-6326

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2021

ASSETS

CURRENT ASSETS:

| | |
|------------------------------------|---------------|
| Cash | \$ 119,516 |
| Accounts receivable - consumers | 30,808 |
| Inventory - materials and supplies | <u>21,533</u> |
| Total current assets | 171,857 |

RESTRICTED ASSETS:

| | |
|---------------------------------|--------------|
| Meter deposit fund | 20,851 |
| Waterline replacement | 194,437 |
| Capital improvements fund | 118,092 |
| Water improvement fund | 82,322 |
| Wastewater capital reserve fund | 20,434 |
| CSLC capital reserve fund | 6,540 |
| Ductile Iron reserve fund | <u>5,317</u> |
| Total restricted assets | 447,993 |

PROPERTY, PLANT, AND EQUIPMENT

| | |
|-------------------------------------|---------------------------|
| Property, plant and equipment | 3,603,013 |
| Accumulated depreciation | <u>(3,061,033)</u> |
| Property, plant and equipment - net | <u>541,980</u> |
| Total assets | <u><u>\$1,161,830</u></u> |

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2021

LIABILITIES AND NET POSITION

| | |
|--|---------------------|
| CURRENT LIABILITIES - PAYABLE FROM CURRENT ASSETS: | |
| Accounts payable - trade | \$ 2,821 |
| Accounts payable - sanitation | 4,807 |
| Sales tax payable | 0 |
| Current maturities long-term debt | <u>0</u> |
| Total from current liabilities | 7,628 |
| | |
| CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS: | |
| Meter deposits | <u>27,348</u> |
| Total from restricted assets | 27,348 |
| | |
| LONG-TERM LIABILITIES: | |
| Note payable - equipment | |
| Note payable - Ductile Iron | 0 |
| Less current maturities | <u>0</u> |
| Total long-term liabilities - net | <u>0</u> |
| Total liabilities | 34,976 |
| | |
| NET POSITION: | |
| Invested in capital assets, net of related debt | 541,980 |
| Temporarily restricted | 420,645 |
| Unrestricted | <u>164,229</u> |
| Total net position | <u>1,126,854</u> |
| Total liabilities and net position | <u>\$ 1,161,830</u> |

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2021

OPERATING REVENUES:

| | |
|-----------------------------|------------|
| Water service | \$ 208,578 |
| Wastewater service fees | 138,669 |
| Penalties and service fees | 5,987 |
| SDWA fees | 2,142 |
| Tap-on fees | 7,250 |
| Permits | 10,245 |
| Sanitation billing fees | 58,319 |
| Street fund transfer | 0 |
| Interdepartmental transfers | 0 |
| Reimbursements | 425 |
| Sales tax | 25,258 |
| Miscellaneous income | 0 |
| | 0 |
| Total operating revenues | 456,873 |

OPERATING EXPENSES

| | |
|-----------------------------|---------|
| Advertising | 0 |
| Bad debts | 0 |
| Bank fees | 276 |
| Booster Pump | 0 |
| Chemical expense | 1,047 |
| Contract Labor | 0 |
| Depreciation expense | 131,188 |
| Dues and licenses | 6,377 |
| Fuel and oil | 2,814 |
| Fire Hydrants | 75 |
| Insurance - general | 1,793 |
| Insurance - health | 11,738 |
| Lift station | 3,741 |
| Meeting and training | 1,312 |
| Miscellaneous | 339 |
| Office supplies and postage | 4,122 |
| Operating expense - WWTF | 68,839 |
| Operating expense - CSLC | 43,754 |
| Payroll taxes | 7,587 |
| Pension contribution | 16,230 |

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF REVENUES AND EXPENSES
CHANGES IN FUND NET POSITION - PROPRIETARY FUND (Continued)

DECEMBER 31, 2021

| | |
|--|---------------------|
| Permits | 263 |
| Professional fees | 4,500 |
| Refunds | 34 |
| Repairs and maintenance | 6,753 |
| Salaries and wages | 105,939 |
| Sales taxes | 25,718 |
| Sanitation | 57,424 |
| SDWA | 2,227 |
| Supplies and materials | 19,105 |
| Water purchase | 7,014 |
| Work Comp | 1,683 |
| Unemployment | 10,680 |
| Small equipment | 227 |
| Water meters | 1,043 |
| Uniforms | 1,068 |
| Utilities | 23,552 |
| Election | 2552 |
| | <hr/> |
| Total operating expenses | 571,014 |
| | <hr/> |
| Operating income (loss) | \$ (114,141) |
| NON-OPERATING REVENUE (EXPENSES): | |
| Interest income | 2,557 |
| Interest expense | (716) |
| ADFA fees | (2,258) |
| Transfer from general fund | 97,200 |
| Transfers | 524 |
| Gain on asset sale | 1,750 |
| | <hr/> |
| Total non-operating revenue (expenses) | 99,057 |
| | <hr/> |
| Change in fund net position | (15,084) |
| | <hr/> |
| Net position as of beginning of year | 1,141,938 |
| | <hr/> |
| Net position as of end of year | <u>\$ 1,126,854</u> |

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

DECEMBER 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|------------|
| Cash received from customers | \$ 456,705 |
| Cash payments to suppliers for goods and services | (322,091) |
| Cash payments for employees services and payroll taxes | (113,526) |

| | |
|--|--------|
| Net cash provided (used) by operations | 21,088 |
|--|--------|

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

| | |
|-------------------------------------|-----------|
| Principal payment on long term debt | (219,737) |
| Interest | (716) |
| Bond service fee | (2,258) |

| | |
|---|-----------|
| Net cash provided by capital financing activities | (222,711) |
|---|-----------|

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

| | |
|--|---------|
| Cash provided by decrease in restricted assets | 102,352 |
| Cash provided by general fund transfer | 97,200 |
| Joint Venture transfer | 6,851 |

| | |
|---|---------|
| Net cash used by non-capital financing activities | 206,403 |
|---|---------|

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|--------------------------|---------|
| Interest income | 2,370 |
| Purchase of equipment | (5,017) |
| Proceeds from asset sale | 1,750 |

| | |
|--|-------|
| Net cash provided by (applied to) investing activities | (897) |
|--|-------|

INCREASE (DECREASE) IN CASH

3,883

CASH - BEGINNING OF YEAR

115,633

CASH - END OF YEAR

\$ 119,516

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

(Continued)

For the year ended December 31, 2021

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:

| | | |
|-------------------------------|----|-----------|
| Operating income (loss) | \$ | (114,141) |
| Depreciation expense | | 131,188 |
| Changes in: | | |
| Accounts receivable | | (168) |
| Inventory | | 4,627 |
| Accounts payable - trade | | (232) |
| Accounts payable - sanitation | | (186) |

Net cash provided by operating activities 21,088

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

0

\$ 21,088

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY:

The City of Cotter Municipal Water and Wastewater Fund is used to account for the operations of the water and wastewater enterprise fund. Enterprise funds are for operations which are financed and operated in a matter similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public be financed or recovered primarily through user charges. The City's comprehensive financial report is prepared by state legislative auditors and does not include the Water and Wastewater Fund, which is separately reported herein.

Totals are presented for financial statement purposes only and do not represent the consolidated information for all of the City of Cotter's component units.

BASIS OF ACCOUNTING:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The Water and Wastewater Fund of the City of Cotter, Arkansas, operates on the accrual basis, recognizing revenues when earned and expenses in the period incurred.

BUDGETS AND BUDGETARY ACCOUNTING:

Enterprise Fund service delivery levels are determined by the extent of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with the changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons are included in supplemental information.

The budget for operations is prepared on the cash and expenditures basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that applicable purchases are expected to be made.

APPLICATION OF RESTRICTED ASSETS:

When expenditures are incurred for which both restricted and unrestricted net assets are available, the policy is to use restricted assets first and unrestricted assets only after restricted assets are depleted.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

APPLICATION OF RESTRICTED ASSETS (continued):

The City does not have a formal minimum fund balance requirement. However, it has adopted reserve policy which targets various reserve amounts such as debt and depreciation reserves.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by Board designation or other payers.

Cash account and certificates of deposit are displayed separately on the balance sheet as "current" and "restricted" cash. The bank balances are categorized to give an indication of the level of risk assumed by the Water and Wastewater Fund of the City of Cotter as follows:

| | |
|---|--------------------|
| Current cash | \$119,516 |
| Restricted cash | <u>447,993</u> |
| Total on deposit | 567,509 |
| Insured by the FDIC or collateralized by financial institution | <u>567,509</u> |
| Uninsured and uncollateralized | <u><u>\$ -</u></u> |

ACCOUNTS RECEIVABLE:

Consumer accounts receivable reflects the balances due from the individuals and businesses using the water and wastewater services provided by the City. The individuals and businesses are residents of the City of Cotter and six subdivisions not within the city limits known as District 2.

The Water and Wastewater Fund uses the direct write-off method of accounting for bad debts. This method is not in accordance with generally accepted accounting principles. Management had determined that the direct write-off method is not materially different than using an allowance account which is generally accepted. No allowance for uncollectible accounts has been provided since historically such accounts have been minimal.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES:

Inventory held by the Water and Wastewater Fund is valued at the actual acquisition cost by the first-in-first-out (FIFO) method.

RESTRICTED ASSETS:

These assets consist of cash restricted by various bond ordinances and the Arkansas Soil and Water Commission for debt service and other specific uses.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment assets include land, buildings, improvements, equipment and water and wastewater system infrastructure. Purchased property, plant and equipment assets are recorded at cost and are depreciated by the straight-line method over the estimated useful lives of the various assets. The lives can range from 5 years for tangible personal property up to 25 years on infrastructure assets. The capitalization policy is \$500 on equipment and \$2,000 on improvements and other assets.

The costs of assets retired from service are credited to the appropriate property, plant and equipment account and costs of removal are charged to operation in the year incurred.

Maintenance, repairs and minor renewals are charged against earnings when incurred. Additions and major renewals are capitalized.

ACCOUNTS PAYABLE:

Accounts payable consist of various trade accounts which are payable in thirty (30) days.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (continued):

| | Capital assets, depreciated | | | | Total |
|----------------------------|-----------------------------|----------------------|--------------------------|------------|--------------|
| | Land rights | System & improve. | Machinery & equipment | Vehicles | |
| Balance, December 31, 2020 | \$ 66,220 | \$ 3,119,981 | \$ 305,067 | \$ 106,728 | \$ 3,597,996 |
| Additions | | | 5,017 | | 5,017 |
| Dispositions | | | | | - |
| Balance, December 31, 2021 | 66,220 | 3,119,981 | 310,084 | 106,728 | 3,603,013 |
| Accumulated depreciation | | | | | |
| Balance, December 31, 2020 | 0 | 2,609,353 | 251,084 | 69,408 | 2,929,845 |
| Increases | | 108,470 | 17,491 | 5,227 | 131,188 |
| Decreases | | | | | - |
| Balance, December 31, 2021 | 0 | 2,717,823 | 268,575 | 74,635 | 3,061,033 |
| Capital assets - net | \$ 66,220 | \$ 402,158 | \$ 41,509 | \$ 32,093 | \$ 541,980 |

Depreciation expense was \$131,188 for the twelve months ended December 31, 2021.

Infrastructure (GASB 34)

Under the transition provisions of GASB 34, the City is not required to retroactively report major general infrastructure assets. There were infrastructure additions to the water and wastewater system for the year ended December 31, 2021.

Intangible Assets

Intangible assets are amortized over the straight-line method over the estimated life of the asset. The loan costs are being amortized over the life of the loan which is 20 years.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTODIAL CREDIT RISK:

Deposits are carried at cost plus accrued interest. The carrying amount of deposits is separately displayed on the balance sheet as "cash" and "assets whose use is limited". The Fund does not have a policy for custodial credit risk.

| | <u>Carrying Amount</u> |
|----------------------------------|----------------------------|
| Insured (FDIC) or collateralized | \$567,509 |
| Uninsured | <u>-</u> |
| Total Deposits | <u><u>\$567,509</u></u> |

CREDIT RISK:

The Fund has no formal policy on credit risk. The Fund has relied on the depository institutions to provide sufficient collateralization. The under insured amounts collateralized at December 31, 2021 were covered by bonds held by Arkansas Bankers Bank. The credit ratings on those bonds were MOODY Aa2 and AA+

NOTE 2: FUND REQUIREMENTS

Meter deposits are refundable customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposits totaled \$20,960, with reserve funds of \$20,812 at December 31, 2021, a total of \$148 less than the requirement.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 3: LONG-TERM DEBT

| Business-type activities: | <u>Balance at 12-31-2020</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at 12-31-2021</u> | <u>Due within One Year</u> |
|--|----------------------------------|------------------|-------------------|----------------------------------|--------------------------------|
| <u>Bonds</u> | | | | | |
| ADFA bond bearing interest at 2.25%, with semi-annual payments of \$29,066, secured by plant expansion. | \$ 216,382 | \$ - | \$ 216,382 | \$ - | \$ - |
| <u>Direct Borrowing</u> | | | | | |
| Note from direct borrowing, bearing interest at 3.47%, with monthly payments of \$1,237, secured by equipment. | 3,355 | - | 3,355 | - | - |
| Total business-type activities | <u>\$ 219,737</u> | <u>\$ -</u> | <u>\$ 219,737</u> | <u>\$ -</u> | <u>\$ -</u> |
| Total long-term debt | <u>\$ 219,737</u> | <u>\$ -</u> | <u>\$ 219,737</u> | <u>\$ -</u> | <u>\$ -</u> |

Current maturities on long-term debt at December 31, 2021, are as follows:

| Year Ending December 31, | <u>Business-type Activities</u> | | | |
|-----------------------------|---------------------------------|-----------------|------------------------------------|-----------------|
| | <u>Bonds</u> | | <u>Notes from Direct Borrowing</u> | |
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2021 | \$ - | \$ - | \$ - | \$ - |
| 2022 | - | - | - | - |
| 2023 | - | - | - | - |
| 2024 | - | - | - | - |
| 2025 | - | - | - | - |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE 4: JOINT VENTURE

The City of Cotter operates a wastewater treatment facility and a sewer line maintenance crew as a joint venture with the City of Gassville, Arkansas. Each city bears its share of operating revenues and debt expense in relation to its usage of the facility. These expenses are shown on the respective financial statements of each city. Each city also recognizes the assets and any liabilities on their respective financial statements. The books and records for operation are maintained at the City of Cotter office. Each City's financial statements have been adjusted to reflect total cost of the project as a capitalized asset has it's

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 4: JOINT VENTURE (CONTINUED)

own ADFA loan as long-term debt. The City's share of year end cash balances and capital reserve savings respectively are treatment plant \$5,456 and \$20,434, line crew \$3,015 and \$6,540.

Financial statements for the wastewater treatment facility and sewer line maintenance crew are maintained by the City of Gassville and available upon request and can be obtained at City administrative offices.

The City of Cotter is part of a joint venture with the City of Gassville. The Cities joined with each other to complete what is known as the Ductile Iron Project. This project accomplished a major repair to the sewer system operated jointly by both cities. The joint venture obtained a grant from the Arkansas Natural Resource Commission of \$123,600 and a loan of \$69,010 (Cotter \$24,153, Gassville \$44,857) to complete the renovation. Each city is repaying its share of the loan at 2.75% interest over 10 years. In addition each city is required to be setting aside 6% of sewer fees annually until a reserve of \$50,000 is acquired and held in an account. As of December 31, 2021 the Cotter portion of the joint reserve account had a balance of \$5,317.

NOTE 5: NET ASSETS RESERVATION

Net assets have been reserved to reflect the restricted nature of certain cash accounts, net of the liabilities payable from those accounts as follows:

| | |
|-------------------------|-------------------|
| Restricted cash account | \$ 447,993 |
| Meter deposit liability | <u>(27,348)</u> |
| Net assets - reserved | <u>\$ 420,645</u> |

NOTE 6: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
A DEFINED BENEFIT PENSION PLAN

The Arkansas Public Employees Retirement System is a separate entity, which issues separate audited financial statements. A copy of the most current financial report, for the fiscal year ended June 30, 2019, is on file at the Cotter City Hall.

Plan description:

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957, to provide retirement benefits for eligible employees and elected officials

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 6: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
A DEFINED BENEFIT PENSION PLAN (CONTINUED)

of state and local government entities in Arkansas. The laws governing operations of APERS are set forth in Arkansas Code Annotated as Amended, Title 24, Chapters 4, with related laws in Chapter 2 and Chapter 7. APERS covers all state employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under the System, college and university employees, certain non-teaching school employees, and other public entities specifically identified by law.

APERS was established as a contributory plan. However, the passage of Act 793 of 1977 established a non-contributory plan and anyone joining the System after January 1, 1978 were automatically enrolled in the non-contributory plan. The City of Cotter joined the System after that date, therefore, their employees are enrolled in the non-contributory plan through June 30, 2005. Beginning July 1, 2005, any employee hired was enrolled in the contributory plan.

Benefits:

Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full benefits as follows:

1. At age sixty-five (65) with five (5) years of actual service,
2. At any age with twenty-eight (28) years of actual service, or
3. Under the non-contributory plan, at age fifty-five (55) with thirty-five (35) years of credited service.

The normal benefit amount, paid on a monthly basis is determined by the member's final average salary and the number of years of service, five (5) or at any age with twenty-eight (28) years of actual service. APERS also provided for disability and survivor benefits.

Funding policy:

Contribution provisions applicable to the State, County, Municipal, and School Divisions are established by state law and may be amended only by the Arkansas General Assembly. The employer contribution rate for the Municipal Division non-contributory plan, as established by an actuarially determined reserve requirement for benefit payments, is 15.32% of covered employees' payroll.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 6: ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
A DEFINED BENEFIT PENSION PLAN (CONTINUED)

The City of Cotter Municipal Water and Wastewater Fund's total required contribution for the year ended December 31, 2021, was \$16,230 and included an allowable purchase for the years of service prior to Cotter's enrollment in the System in 1995. The required contributions for the year have been made.

Funding status and progress (Continued):

Per the most current APERS audit report, the excess of the accrued liability of the System over the actuarial value of assets, as adjusted to fair value based on the Entry Age Normal Cost Method, was \$2.39 [dollars in billions] at June 30, 2019. Total actuarial accrued liabilities were \$11.13 [dollars in billions], and total applicable assets at smoothed market related value were \$8.74 [dollars in billions], at June 30, 2019. APERS does not conduct separate measurements for the separate divisions or employers of the System.

Significant assumptions used to compute the actuarial value of assets and accrued liabilities along with the schedule of funding status and progress, which presents the progress in accumulating sufficient assets to pay benefits when due, and other statistical data are also presented in the APERS annual financial report.

NOTE 7: CITY OFFICIALS

Certain regulatory agencies and creditors require that members of the governing board be presented. Members of the city council and officials and their terms follow:

| | | |
|-------------------|--------------------|-------------------|
| McGeorge Caradine | Mayor | December 31, 2022 |
| Andrea Kray | Recorder/Treasurer | December 31, 2021 |
| Carolyn Gill | Ward 1-1 | December 31, 2021 |
| Mark Johnson | Ward 1-2 | December 31, 2022 |
| Charles Sugg | Ward 2-1 | December 31, 2021 |
| Linda McCarthy | Ward 2-2 | December 31, 2022 |
| Mertice Kray | Ward 3-1 | December 31, 2021 |
| Cameron Ross | Ward 3-2 | December 31, 2021 |

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 8: INSURANCE COVERAGE

Insurance coverage for the year ended December 31, 2021, is as follows:

| <u>Facility</u> | <u>Insurer</u> | <u>Policy Date</u> | <u>Coverage</u> |
|--|---------------------------|-----------------------|-----------------|
| Buildings and contents, tanks, and pumps | Arkansas Municipal League | 11/4/2021 - 11/4/2022 | \$410,069 |
| Vehicles and backhoe | Arkansas Municipal League | 11/4/2021 - 11/4/22 | \$104,493 |

Workers Compensation is provided in the statutory amounts by the Arkansas Municipal League.

NOTE 6: SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated by management through December 27, 2021. This is the first date the financial statements were available for issuance.

NOTE 7: SUMMARY OF ASSETS WHOSE USE IS LIMITED

The following accounts are restricted by board for future use, loan covenants, and board rule for customer deposits.

| | <u>Cash</u> | <u>Certificates of deposits</u> | <u>TOTAL 2021</u> |
|--------------------------------------|-------------------|-------------------------------------|-----------------------|
| Meter deposit fund | \$ 20,851 | \$ - | \$ 20,851 |
| Waterline replacement | 194,437 | - | 194,437 |
| Capital improvement fund | 0 | 118,092 | 118,092 |
| Water Improvements | 0 | 82,322 | 82,322 |
| CGJSC ductile iron construction fund | - | - | - |
| | <u>\$ 215,288</u> | <u>\$ 200,414</u> | <u>\$ 415,702</u> |

SUPPLEMENTARY INFORMATION

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

WATER BUDGET

| <u>ACCOUNT</u> | <u>Actual</u> | <u>%</u> | <u>Final</u> <u>Budget</u> | <u>%</u> | <u>Variance</u> <u>over</u> <u>(under)</u> | <u>Original</u> <u>Budget</u> |
|-----------------------------------|--------------------------|----------------|-------------------------------|----------------|--|----------------------------------|
| <u>Income</u> | | | | | | |
| Water sales | \$ 208,578 | 45.25% | \$ 204,375 | 41.77% | \$ 4,203 | \$ 204,375 |
| Sewer fees | 138,669 | 30.08% | 129,300 | 26.43% | 9,369 | 129,300 |
| Service fees | 791 | 0.17% | 1,350 | 0.28% | (559) | 1,350 |
| SDWA fees | 2,142 | 0.46% | 2,218 | 0.45% | (76) | 2,218 |
| Sanitation fees | 58,319 | 12.65% | 57,595 | 11.77% | 724 | 57,595 |
| Sales tax | 25,258 | 5.48% | 25,759 | 5.26% | (501) | 25,759 |
| Sale of equipment | 1,750 | 0.38% | 0 | 0.00% | 1,750 | - |
| Reimbursements | 425 | 0.09% | 0 | 0.00% | 425 | - |
| Penalties/late fees | 5,196 | 1.13% | 5,400 | 1.10% | (204) | 5,400 |
| New meter taps | 7,250 | 1.57% | 1,850 | 0.38% | 5,400 | 1,850 |
| Interest | 2,370 | 0.51% | 240 | 0.05% | 2,130 | 240 |
| Fees & permits | 10,245 | 2.22% | 4,400 | 0.90% | 5,845 | 4,400 |
| Carryover | 0 | 0.00% | 56,791 | 11.61% | (56,791) | 56,791 |
| Miscellaneous income | 0 | 0.00% | 0 | 0.00% | 0 | - |
| Total income | <u>\$ 460,994</u> | 100.00% | <u>\$ 489,278</u> | 100.00% | <u>\$ (28,284)</u> | <u>\$ 489,278</u> |
| <u>Expenses</u> | | | | | | |
| Act 474-Building permits | \$ 263 | 0.06% | \$ 50 | 0.01% | \$ 213 | \$ 50 |
| Advertising | 0 | 0.00% | 400 | 0.08% | (400) | 400 |
| Audit fees | 4,500 | 1.02% | 4,500 | 0.92% | 0 | 4,500 |
| Bad debts | 0 | 0.00% | 0 | 0.00% | 0 | - |
| Bank fees | 276 | 0.06% | 276 | 0.06% | 0 | 276 |
| Chemical expense | 1,047 | 0.24% | 1,080 | 0.22% | (33) | 1,080 |
| Clothing allowance | 1,068 | 0.24% | 1,350 | 0.27% | (282) | 1,350 |
| Miscellaneous | 339 | 0.08% | 815 | 0.17% | (476) | 815 |
| Dues, subscriptions & memberships | 6,377 | 1.45% | 2,635 | 0.54% | 3,742 | 2,635 |
| Election cost | 2,552 | 0.58% | 3,500 | 0.71% | (948) | 3,500 |
| Fire hydrants | 75 | 0.02% | 4,500 | 0.92% | (4,425) | 4,500 |
| Fuel & Oil | 2,814 | 0.64% | 2,925 | 0.60% | (111) | 2,925 |
| Insurance-property & vehicle | 1,793 | 0.41% | 1,775 | 0.36% | 18 | 1,775 |
| Legal expense | 0 | 0.00% | 4,000 | 0.81% | (4,000) | 4,000 |
| Lift station | 3,741 | 0.85% | 1,200 | 0.24% | 2,541 | 1,200 |

See note to Required Supplementary Information on page 28.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2021

WATER BUDGET (CONTINUED)

| | | | | | | |
|-------------------------------|-------------------|---------------|-------------------|---------------|--------------------|-------------------|
| Meeting/training expense | 1,312 | 0.30% | 3,825 | 0.78% | (2,513) | 3,825 |
| Office supplies & postage | 4,122 | 0.94% | 4,300 | 0.88% | (178) | 4,300 |
| Powell tank washout & improv. | 0 | 0.00% | 7,500 | 1.53% | (7,500) | 7,500 |
| PM-Water meters | 1,043 | 0.24% | 0 | 0.00% | 1,043 | 0 |
| Refunds | 34 | 0.01% | 0 | 0.00% | 34 | 0 |
| Repair & maint-buildings | 37 | 0.01% | 800 | 0.16% | (763) | 800 |
| Repair & maint-equipment | 5,650 | 1.29% | 6,000 | 1.22% | (350) | 6,000 |
| Repair & maint-vehicles | 1,062 | 0.24% | 2,200 | 0.45% | (1,138) | 2,200 |
| Salaries | 76,217 | 17.34% | 70,191 | 14.29% | 6,026 | 70,191 |
| Salaries-officers | 29,723 | 6.76% | 35,026 | 7.13% | (5,303) | 35,026 |
| Benefits-APERS | 16,230 | 3.69% | 15,080 | 3.07% | 1,150 | 15,080 |
| Benefits-insurance | 11,738 | 2.67% | 12,285 | 2.50% | (547) | 12,285 |
| Payroll taxes-medicare | 1,425 | 0.32% | 1,526 | 0.31% | (101) | 1,526 |
| Payroll tax-social security | 6,092 | 1.39% | 6,523 | 1.33% | (431) | 6,523 |
| Benefits-unemployment | 70 | 0.02% | 703 | 0.14% | (633) | 703 |
| Benefits-worker's comp | 1,683 | 0.38% | 1,516 | 0.31% | 167 | 1,516 |
| Sanitation fees | 57,424 | 13.06% | 57,595 | 11.73% | (171) | 57,595 |
| SDWA | 2,227 | 0.51% | 2,218 | 0.45% | 9 | 2,218 |
| Sales tax | 25,718 | 5.85% | 25,243 | 5.14% | 475 | 25,243 |
| Street repairs | 0 | 0.00% | 1,000 | 0.20% | (1,000) | 1,000 |
| Supplies-inventory parts | 17,512 | 3.98% | 12,000 | 2.44% | 5,512 | 12,000 |
| Supplies-shop tools | 1,593 | 0.36% | 1,500 | 0.31% | 93 | 1,500 |
| Telephone/fax/internet | 3,009 | 0.68% | 3,930 | 0.80% | (921) | 3,930 |
| Utilities | 20,543 | 4.67% | 22,000 | 4.48% | (1,457) | 22,000 |
| Water purchased | 7,014 | 1.60% | 7,014 | 1.43% | 0 | 7,014 |
| Water well inspection | 0 | 0.00% | 4,500 | 0.92% | (4,500) | 4,500 |
| Water Meter Project | 0 | 0.00% | 21,926 | 4.46% | (21,926) | 21,926 |
| CSLC Acct #61531 | 43,754 | 9.95% | 48,396 | 9.85% | (4,642) | 48,396 |
| CSLC-Ductile Iron Depr Fund | 8,952 | 2.04% | 7,758 | 1.58% | 1,194 | 7,758 |
| Transfers | 1728 | 0.39% | 0 | 0.00% | 1728 | 0 |
| WWTF Acct #12726 | <u>68,839</u> | <u>15.66%</u> | <u>79,609</u> | <u>16.21%</u> | <u>(10,770)</u> | <u>79,609</u> |
| Total | <u>\$ 439,598</u> | 100% | <u>\$ 491,170</u> | 100% | <u>\$ (51,572)</u> | <u>\$ 491,170</u> |

See note to Required Supplementary Information on page 28.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

WATER AND WASTEWATER RATES

DECMEBER 31, 2021

In 2009, the City of Cotter, Arkansas, passed ordinance 2009-10 & 2009-11. This ordinance revised the water rate structure as follows below. In 2019, the City of Cotter, Arkansas, passed ordinance 2019-02 which revised the wastewater rate structure as follows below. These rates were in effect at December 31, 2021.

The rate structure in use at December 31, 2021, is as follows:

Water Rate Schedule

| <u>District 1</u> | <u>Flat rate and per thousand gallons</u> |
|-------------------------|---|
| 1,000 gallons - minimum | \$ 16.07 flat rate |
| 2,000 gallons | 23.06 rate |
| 4,000 gallons | 37.04 rate |
| 5,000 gallons | 44.03 rate |
| 10,000 gallons | 78.98 M |
| 15,000 gallons | 113.93 M |
| 20,000 gallons | 148.88 M |
| 30,000 gallons | 218.78 M |
| 40,000 gallons | 288.68 M |

Wastewater Rate Schedule

| <u>Wastewater Customers</u> | <u>Rate per thousand gallons of water used</u> |
|-----------------------------|--|
| 1,000 gallons - minimum | \$ 6.48 flat rate |
| All over 1,000 gallons | 6.48 for each additional thousand |

Non-Water Customers

| | |
|--------------------------------|--------------------|
| One person household - minimum | \$ 12.13 flat rate |
|--------------------------------|--------------------|

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

USERS BY CLASS

DECEMBER 31, 2021

| Customer category (usage in gallons) | Customer Count | | | Total |
|---|----------------|--------------------|-------------------------|------------|
| | Water Only | Wastewater Only | Water and Wastewater | |
| < 2,000 | 8 | 1 | 26 | 35 |
| 2,000 - 50,000 | 12 | 0 | 325 | 337 |
| > 50,000 | 8 | 0 | 101 | 109 |
| | <u>28</u> | <u>1</u> | <u>452</u> | <u>481</u> |

ADDITIONAL INFORMATION

Water loss figures for the year ended December 31, 2021 are as follows:

| | <u>2021</u> |
|-------------------------|-------------------|
| Gallons of water billed | 22,257,900 |
| Gallons of water pumped | <u>34,252,000</u> |
| Gallons of water lost | 11,994,100 |

Note: Required Supplementary Information - Budget Reconciliation

The difference between legally adopted expenditures for the Water and Wastewater budgets and generally accepted principles figures are as follows:

(Capitalization of asset expenditures and nonrevenue treatment of loan proceeds.)

| <u>Expenditures</u> | <u>Water</u> |
|-----------------------------------|-------------------|
| Legal budget | \$ 491,170 |
| Capital expense & Depreciation | <u>131,188</u> |
| GAAP | <u>\$ 622,358</u> |

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

To the Honorable Mayor and City Council
City of Cotter
Municipal Water and Wastewater Fund
P.O. Box 9
Cotter, Arkansas 72626

I 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 business-type activities of the City of Cotter Municipal Water and Wastewater Fund, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Cotter Municipal Water and Wastewater Fund's basic financial statements and have issued my report thereon dated December 15, 2022.

Internal control over financial reporting

In planning and performing my audit of the financial statements, I considered the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Cotter Municipal Water and Wastewater Fund's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Cotter Municipal Water and Wastewater Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies (Findings #1 and #2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cotter Municipal Water and Wastewater Fund's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Cotter Municipal Water and Wastewater Fund's Response to Findings

City of Cotter Municipal Water and Wastewater Fund's response to the findings identified in my audit is described in the accompanying schedule of findings. The City of Cotter Municipal Water and Wastewater Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Prior year findings

City of Cotter Municipal Water and Wastewater Fund's findings and response to the prior year findings are also presented in the schedule of findings. The response was not subject to the audit procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal controls and compliance and for the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Brian Haas, CPA
1616 Highway 62 West
Mountain Home, Arkansas 72653

December 15, 2022

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2021

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Cotter Municipal Water and Wastewater Fund.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the report on compliance and internal control. The staff is not trained to draft financial statements and footnotes. The conditions reported are not a material weakness.

FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES:

1. Segregation of duties:

| | |
|-----------------|--|
| Criteria: | Duties should be segregated to provide reasonable assurance that transactions are handled properly. |
| Condition: | The City does not have a proper segregation of duties. This condition also existed in prior years. |
| Causes: | The staff is so small there are only a limited number of people for certain functions. |
| Effect: | Transactions could be mishandled, which could affect accuracy of the financial statement. |
| Recommendation: | Duties should be separated as much as possible and alternative controls used to compensate for lack of separation. |
| Response: | Management has determined that it is not economically feasible to have the necessary segregation of duties required to have a more adequate internal control system. |

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2021

2. Establish internal control over financial statement preparation and review:

| | |
|-----------------|---|
| Criteria: | Management is responsible for establishing and maintaining control and for the fair presentation of the net assets, supplementary information, and disclosures in the financial statements, in conformity with generally accepted accounting standards. |
| Condition: | City of Cotter Municipal Water and Wastewater Fund does not have a system that would provide management with reasonable assurance that the financial statements and related disclosures are complete and presented in accordance with generally accepted accounting standards. As such, management requested me to compile and prepare a draft of the financial statements, including the related note disclosures. This condition also existed in prior years. |
| Cause: | There are limited personnel with proper training and skills to provide the necessary reporting skills for fair presentation of all the financial information. |
| Effect: | Financial statements and related footnote disclosures and supplementary information required by generally accepted accounting standards would not be complete. |
| Recommendation: | Use of an outside consultant to use as an aid to drafting the financial statements. |
| Response: | Management has determined that it is not economically feasible to acquire an employee capable of drafting the financial statements. These conditions have persisted from prior years into the current year which has not allowed the Fund to improve this aspect of controls. |