

**CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of
Cave City, Arkansas**

**Independent Auditor's Report
and Financial Statements**

December 31, 2023 and 2022

**CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of
Cave City Water and Sewer Department
Cave City, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Cave City Water and Sewer Department, (a proprietary fund of the City of Cave City, Arkansas) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Cave City Water and Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Cave City Water and Sewer Department, as of December 31, 2023 and 2022, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Cave City Water and Sewer Department and to meet our 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 of the Cave City Water and Sewer Department are intended to present the financial position, the changes in the financial position, and cash flows of only that portion of the business-type activities of the City of Cave City, Arkansas that is attributable to the transactions of the Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the City of Cave City, 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.

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Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cave City Water and Sewer Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 Cave City Water and Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cave City Water and Sewer Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 8 and required supplementary information on pages 27 and 28 be presented to supplement the basic financial statements. Such information is the responsibility of management, and although not a 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Management is responsible for the supplementary information on pages 29 – 36. Our opinion on the basic financial statements do not cover the supplementary information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the supplementary information and consider whether a material inconsistency exists between the supplementary information and the basic financial statements, or the supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the supplementary information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2024, on our consideration of the Cave City Water and Sewer Department’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cave City Water and Sewer Department’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cave City Water and Sewer Department’s internal control over financial reporting and compliance.

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
July 22, 2024

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**CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of
Cave City, Arkansas
Management’s Discussion and Analysis**

Our discussion and analysis of Cave City Water and Sewer Department’s financial performance provides an overview of the Water and Sewer Department’s financial activities for the fiscal years ended December 31, 2023 and 2022. Please read it in conjunction with the Water and Sewer Department’s financial statements, which begin on page 9.

Financial Highlights

- The Water and Sewer Department’s net position decreased by \$(888) from \$3,545,663 in 2022 to \$3,544,775 in 2023 as a result of this year’s operations. The Water and Sewer Department’s net position increased by \$515,493 from \$3,030,170 in 2021 to \$3,545,663 in 2022 as a result of the prior year’s operations and capital grants received.
- The Water and Sewer Department’s operating expense exceeded operating revenue by \$(3,829) for the year ended December 31, 2023, and operating revenue exceeded operating expense by \$114,971 for the year ended December 31, 2022.
- Cash and cash equivalents increased by \$80,091 and decreased by (\$95,911) for the years ended December 31, 2023 and 2022, respectively.

Using This Annual Report

This annual report consists of three parts – management’s discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements consist of three financial statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes focus on the individual parts of the Water and Sewer Department, offering short and long term financial information about the activities that the government operates like businesses.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Water and Sewer Department's finances is, "Is the Water and Sewer Department as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Water and Sewer Department's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer Department's net position and changes in them. You can think of the Water and Sewer Department's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Water and Sewer Department's financial health or financial position. Over time, increases or decreases in the Water and Sewer Department's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors.

The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as:

- Where did cash come from?
- What was cash used for?
- What was the change in cash balance during the reporting period?

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Water and Sewer Department's Net Position

The Water and Sewer Department's net position represent the difference between its assets and deferred outflows of resources less its liabilities and deferred inflows of resources reported in the statement of net position on pages 9 and 10. The Water and Sewer Department's net position decreased during 2023 by \$(888) and increased during 2022 by \$515,493.

Table 1 below details the various elements of the statement of net position for December 31, 2023, 2022 and 2021:

Assets, Liabilities, Deferred Inflows, Deferred Outflows and Net Position			
	December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total current assets	\$ 639,561	\$ 605,946	\$ 700,870
Noncurrent assets	122,904	53,363	52,929
Capital assets - net	<u>2,953,841</u>	<u>3,030,849</u>	<u>2,471,255</u>
Total assets	<u>3,716,306</u>	<u>3,690,158</u>	<u>3,225,054</u>
Deferred outflow of resources	<u>61,407</u>	<u>48,039</u>	<u>18,656</u>
Total assets and deferred outflows of resources	<u>\$ 3,777,713</u>	<u>\$ 3,738,197</u>	<u>\$ 3,243,710</u>
Current liabilities	\$ 20,765	\$ 21,448	\$ 28,722
Other liabilities	<u>209,587</u>	<u>166,007</u>	<u>101,362</u>
Total liabilities	<u>230,352</u>	<u>187,455</u>	<u>130,084</u>
Deferred inflows of resources	<u>2,586</u>	<u>5,079</u>	<u>83,456</u>
Net position			
Net investment in capital assets	\$ 2,953,841	\$ 3,030,849	\$ 2,471,255
Restricted - expendable	122,904	\$ 53,363	\$ 52,929
Unrestricted	<u>468,030</u>	<u>461,451</u>	<u>505,986</u>
Total net position	<u>3,544,775</u>	<u>3,545,663</u>	<u>3,030,170</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,777,713</u>	<u>\$ 3,738,197</u>	<u>\$ 3,243,710</u>

Operating Results and Changes in the Water and Sewer Department's Net Position

The Water and Sewer Department's net position decreased by \$(888) in 2023 and increased by \$515,493 in 2022. The changes are made up of very different components, as shown in Table 2, which follows:

Table 2			
Operating Results and Changes in Net Position			
	Years Ended		
	December 31,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues			
Service fees	\$ 643,664	\$ 639,496	\$ 617,529
Hook-up and reconnection fees	7,809	7,779	5,101
Late charges	18,031	16,255	14,319
Other revenue	51,942	55,797	31,270
Total operating revenues	<u>721,446</u>	<u>719,327</u>	<u>668,219</u>
Operating expenses			
Salaries and employee expenses	268,996	168,719	154,518
Operating supplies	23,348	21,683	25,904
Insurance expense	3,870	4,138	3,398
Repairs and maintenance	140,531	140,099	34,562
Taxes and licenses	11,535	6,884	6,515
Legal and auditing	11,000	10,000	6,500
Utilities	79,167	61,042	63,136
Office supplies and postage	9,137	7,710	7,765
Miscellaneous expense	1,381	11,203	-
Depreciation and amortization	176,310	172,879	164,341
Total operating expenses	<u>725,275</u>	<u>604,357</u>	<u>466,639</u>
Operating income	(3,829)	114,971	201,580
Nonoperating revenues (expenses)	<u>2,941</u>	<u>400,522</u>	<u>61</u>
Increase in net position	(888)	515,493	201,641
Net position - beginning of year	<u>3,545,663</u>	<u>3,030,170</u>	<u>2,828,529</u>
Net position - end of year	<u>\$ 3,544,775</u>	<u>\$ 3,545,663</u>	<u>\$ 3,030,170</u>

Operating Revenues and Expenses

The Water and Sewer Department's total operating revenues increased by \$2,119 from \$719,327 in 2022 to \$721,446 in 2023. Total operating expenses increased by \$120,918 from \$604,357 in 2022 to \$725,275 in 2023.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses primarily consist of interest income on interest bearing accounts. Interest income was \$2,941 and \$1,054 in 2023 and 2022, respectively. During 2022, \$399,531 of American Rescue Plan Act (ARPA) funding was received and recognized as grant revenue. Interest expense was \$-0- and \$63 in 2023 and 2022, respectively.

The Water and Sewer Department's Cash Flows

Changes in the Water and Sewer Department's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Asset

Capital Assets

At December 31, 2023 and 2022, the Water and Sewer Department had \$2,953,841 and \$3,030,849, respectively, invested in a broad range of capital assets, including a sewer treatment plant, water tanks, water and sewer lines, furniture and fixtures. The Water and Sewer Department's capital asset purchases totaled \$99,302 in 2023, as compared to \$732,473 in 2022.

Contacting the Water and Sewer Department's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Water and Sewer Department's finances and to show the Water and Sewer Department's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cave City Water and Sewer Department, 120 East Spring Street, Cave City, Arkansas 72521.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Statements of Net Position
December 31, 2023 and 2022

Assets and Deferred Outflows of Resources

	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents - Notes 1 and 2	\$ 519,539	\$ 508,989
Accounts receivable, net of allowance for uncollectible accounts - Note 3	54,783	53,199
Prepaid expenses	11,731	5,763
Inventory - Note 1	53,508	37,995
Total current assets	639,561	605,946
Noncurrent assets		
Restricted cash and cash equivalents - Note 2	122,904	53,363
Capital assets , net of accumulated depreciation - Note 4	2,953,841	3,030,849
Total assets	3,716,306	3,690,158
Deferred outflows of resources		
Deferred pension outflows - Note 6	61,407	48,039
Total assets and deferred outflows of resources	\$ 3,777,713	\$ 3,738,197

The notes to financial statements are an integral part of this statement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Statements of Net Position (Cont.)
December 31, 2023 and 2022

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2023</u>	<u>2022</u>
Current liabilities		
Accounts payable	\$ 11,285	\$ 14,643
Accrued expenses	9,480	6,805
Total current liabilities	<u>20,765</u>	<u>21,448</u>
Noncurrent liabilities		
Net pension liability - Note 6	168,114	142,588
Total noncurrent liabilities	<u>168,114</u>	<u>142,588</u>
Other liabilities		
Meter deposits	41,473	23,419
Total liabilities	<u>230,352</u>	<u>187,455</u>
Deferred inflows of resources		
Deferred pension inflows - Note 6	2,586	5,079
Net position		
Net investment in capital assets	2,953,841	3,030,849
Restricted - expendable	122,904	53,363
Unrestricted	468,030	461,451
Total net position	<u>3,544,775</u>	<u>3,545,663</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 3,777,713</u></u>	<u><u>\$ 3,738,197</u></u>

The notes to financial statements are an integral part of this statement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Statements of Revenues, Expenses and Changes in Net position
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues		
Service fees (net of provision for bad debts of \$4,116 in 2023 and \$-0- in 2022)	\$ 643,664	\$ 639,496
Hook-up and reconnection fees	7,809	7,779
Late charges	18,031	16,255
Other revenue	51,942	55,797
Total operating revenues	<u>721,446</u>	<u>719,327</u>
Operating expenses		
Salaries	178,742	125,265
Employee benefits	90,254	43,454
Truck expense	12,272	10,479
Insurance expense	3,870	4,138
System repairs	94,534	60,224
Equipment repairs	45,997	79,875
Computer supplies	4,309	7,073
Chemicals	2,216	2,014
Taxes and licenses	11,535	6,884
Legal and auditing	11,000	10,000
Utilities	79,167	61,042
Office supplies and postage	9,137	7,710
Miscellaneous expense	1,381	8,936
Fees and testing	4,551	4,383
Depreciation and amortization	176,310	172,879
Total operating expenses	<u>725,275</u>	<u>604,356</u>
Operating income (loss)	<u>(3,829)</u>	<u>114,971</u>
Nonoperating revenues (expenses)		
ARPA Grant Funding	-	399,531
Interest income	2,941	1,054
Interest expense	-	(63)
Total nonoperating revenues (expenses)	<u>2,941</u>	<u>400,522</u>
Change in net position	(888)	515,493
Net position - beginning of year	<u>3,545,663</u>	<u>3,030,170</u>
Net position - end of year	<u>\$ 3,544,775</u>	<u>\$ 3,545,663</u>

The notes to financial statements are an integral part of this statement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Receipts from customers	\$ 714,810	686,542
Payments to suppliers	(281,704)	(275,440)
Payments to employees	(256,654)	(175,062)
Net cash provided by operating activities	<u>176,452</u>	<u>236,040</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(99,302)	(732,473)
Proceeds from grants	-	399,531
Interest payments on long-term debt	-	(63)
Net cash (used in) capital and related financing activities	<u>(99,302)</u>	<u>(333,005)</u>
Cash flows from investing activities:		
Interest income	2,941	1,054
Net cash provided by investing activities	<u>2,941</u>	<u>1,054</u>
Increase/(decrease) in cash and cash equivalents	80,091	(95,911)
Cash and cash equivalents - beginning of year	<u>562,352</u>	<u>658,263</u>
Cash and cash equivalents - end of year	<u>\$ 642,443</u>	<u>\$ 562,352</u>
Reconciliation of cash to the statements of net position:		
Current assets - cash and cash equivalents	\$ 519,539	\$ 508,989
Noncurrent assets - cash and cash equivalents	122,904	53,363
Total cash and cash equivalents	<u>\$ 642,443</u>	<u>\$ 562,352</u>
<u>Supplemental information</u>		
Interest paid	<u>\$ -</u>	<u>\$ 63</u>

(Continued)

The notes to financial statements are an integral part of this statement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Statements of Cash Flows (Cont.)
Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (3,829)	\$ 114,971
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities:		
Depreciation and amortization	176,310	172,879
Bad debts	4,116	-
Net changes in:		
Accounts receivable	(5,701)	1,682
Prepaid expenses	(5,969)	2,689
Inventory	(15,513)	(5,789)
Accounts payable	(3,358)	(10,958)
Accrued expenses	2,676	3,684
Meter deposits	18,054	(33,091)
Net pension liability	25,526	97,736
Deferred outflows of resources	(13,368)	(29,384)
Deferred inflows of resources	(2,492)	(78,379)
	<u>\$ 176,452</u>	<u>\$ 236,040</u>
Net cash provided by operating activities	<u>\$ 176,452</u>	<u>\$ 236,040</u>

The notes to financial statements are an integral part of this statement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 1 –Summary of Significant Accounting Policies

Nature of Activities

The Cave City Water and Sewer Department (the Water and Sewer Department) is considered to be a proprietary fund of the City of Cave City, Arkansas. Proprietary funds are used to account for operations in a manner similar to business enterprises. With a proprietary fund, it is the inherent intent of the governing body to recover all costs of operations through user charges.

Financial Reporting Entity

These financial statements present only the Cave City Water and Sewer Department funds, accounts and balances, and are not intended to present the financial position, results of operations and cash flows of the City of Cave City, Arkansas.

Basis of Accounting

The Water and Sewer Department's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds. The financial statements of the Department have been prepared on the accrual basis using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and certificates of deposit with an original maturity of three months or less.

Accounts Receivable

The Water and Sewer Department grants credit to residents for water and sewer sales. The collectability of the Water and Sewer Department's receivables is dependent upon the residents' ability to honor their obligations for their water and sewer bills. Accounts receivable are carried on the statement of net position at net realizable value. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance is estimated based on historical collection percentages. The allowance for uncollectible accounts totaled \$4,415 and \$299 at December 31, 2023 and 2022, respectively. The Department had bad debt expense totaling \$4,116 and \$-0- for the years ended December 31, 2023 and 2022, respectively.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 1 –Summary of Significant Accounting Policies (Cont.)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Inventories

Inventories are priced at the lower of cost or net realizable value using the first-in, first-out method.

Capital Assets

Capital assets costing over \$5,000 are recorded at historical cost as acquired and are depreciated using the straight-line method over the estimated useful lives of 5 – 15 years for furniture and equipment, and 20 – 50 years for buildings, storage tanks, and distribution lines. Contributed capital assets are recorded at their estimated fair value at the time of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged against earnings when incurred.

Accounts Payable

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

Accrued Expenses

Accrued expenses consist primarily of accrued payroll tax and sales tax.

Meter Deposits

Meter deposits are liabilities payable to water and sewer customers as a requirement to obtain services.

Net Position

Net position classifications are defined as follows:

Net investment in capital assets – this component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, 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 is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 1 –Summary of Significant Accounting Policies (Cont.)

Net Position

Restricted:

Restricted expendable net position – this component of net position consists of constraints placed on net position 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.

Restricted nonexpendable net position - this component of net position is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Water and Sewer Department such as permanent endowments.

Unrestricted net position – this component of net position consists of net position that does not meet the definition of “restrict” or “net investment in capital assets,” as defined above.

Grants and Contributions

From time to time, the Water and Sewer Department may receive grants and contributions. Revenue from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Water and Sewer Department has both restricted and unrestricted resources available to finance a particular program, it is the Water and Sewer Department’s policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Water and Sewer Department’s statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water utility and sewer services. Operating expenses are all expenses incurred to provide water utility and sewer services, other than financing costs.

Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 1 – Summary of Significant Accounting Policies (Cont.)

Income Taxes

The Water and Sewer Department is considered a political subdivision of the State of Arkansas and is exempt from federal income taxes under Section 115 of the Internal Revenue Code and a similar provision under state law and therefore the accompanying financial statements do not reflect a provision or liability for federal or state income taxes.

Revenue Recognition

Revenues from water sales are recognized at the time-of-service delivery based on actual or estimated water meter readings.

Reclassification of Prior Financial Statement Presentation

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 financial statement presentation. These reclassifications had no effect on the changes in net position as previously reported.

Note 2 – Significant Concentration of Credit Risk

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. Credit is granted to the Water and Sewer Department's customers subject to a meter deposit which is refundable after one year if the customer keeps their account current.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies of instrumentalities or the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Water and Sewer Department's deposit policy for custodial credit risk requires compliance with the provision of state law. At December 31, 2023, the Water and Sewer Department's carrying amount of deposits was \$642,443. The bank balance was \$646,354. Of this balance \$646,354 was insured by FDIC insurance or pledged collateral.

Interest rate risk – the Water and Sewer Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk – the Water and Sewer Department does not have a formal policy that limits exposure to credit risk.

Concentration of credit risk – the Water and Sewer Department places no limit on the amount it may invest in any one issuer.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 2 – Significant Concentration of Credit Risk (Cont.)

The carrying amounts of deposits are included in the Water and Sewer Department's statements of net position as follows:

	<u>2023</u>	<u>2022</u>
Deposits	\$ 642,443	\$ 562,352
Total	<u>\$ 642,443</u>	<u>\$ 562,352</u>

	<u>2023</u>	<u>2022</u>
Included in the following statement of net position captions:		
Cash and cash equivalents	\$ 519,539	\$ 508,989
Noncurrent restricted cash and cash equivalents	<u>122,904</u>	<u>53,363</u>
Total	<u>\$ 642,443</u>	<u>\$ 562,352</u>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest income	<u>\$ 2,941</u>	<u>\$ 1,054</u>

Restricted funds are established to ensure the Water and Sewer Department meets the requirements of the State of Arkansas' Act 545 of 2023. The Water and Sewer Department also maintains a separate account for meter deposits that may be refunded to customers.

	<u>2023</u>	<u>2022</u>
Meter deposits - checking	\$ 61,716	\$ 53,363
Replacement and refurbishment	<u>61,188</u>	<u>-</u>
Total noncurrent cash	<u>\$ 122,904</u>	<u>\$ 53,363</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 3 – Accounts Receivable

Accounts receivable consists of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Accounts receivable	\$ 59,198	\$ 53,498
Allowance for uncollectible accounts	<u>(4,415)</u>	<u>(299)</u>
Accounts receivable - net of allowance for uncollectible accounts	<u>\$ 54,783</u>	<u>\$ 53,199</u>

Note 4 – Capital Assets and Depreciation

Capital asset additions, retirements and balances for the years ended December 31, 2023 and 2022, were as follows:

	Balance December 31, <u>2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Balance December 31, <u>2023</u>
Plant improvements	\$ 970,826	\$ -	\$ -	\$ -	\$ 970,826
Plant in service	4,305,223	-	-	-	4,305,223
Vehicles and equipment	392,588	35,000	-	-	427,588
Office furniture and equipment	15,562	-	-	-	15,562
New services	366,759	-	-	-	366,759
Rural water system	284,133	-	-	-	284,133
Rural water system # 2	740,967	-	-	-	740,967
Total capital assets	<u>7,076,058</u>	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>7,111,058</u>
Less accumulated depreciation for:					
Plant improvements	(194,159)	(35,102)	-	-	(229,261)
Plant in service	(2,529,272)	(97,740)	-	-	(2,627,012)
Vehicles and equipment	(237,354)	(13,241)	-	-	(250,595)
Office furniture and equipment	(15,508)	-	-	-	(15,508)
New services	(333,177)	(5,605)	-	-	(338,782)
Rural water system	(212,934)	(5,432)	-	-	(218,366)
Rural water system # 2	(522,805)	(19,190)	-	-	(541,995)
Total accumulated depreciation	<u>(4,045,209)</u>	<u>(176,310)</u>	<u>-</u>	<u>-</u>	<u>(4,221,519)</u>
Construction in progress	<u>-</u>	<u>64,302</u>	<u>-</u>	<u>-</u>	<u>64,302</u>
Capital assets, net	<u>\$ 3,030,849</u>	<u>\$ (77,008)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,953,841</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 4 – Capital Assets and Depreciation (Cont.)

	Balance December 31, <u>2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Reclass</u>	Balance December 31, <u>2022</u>
Plant improvements	\$ 280,206	\$ 690,620	\$ -	\$ -	\$ 970,826
Plant in service	4,305,223	-	-	-	4,305,223
Vehicles and equipment	275,616	41,853	-	75,119	392,588
Office furniture and equipment	15,562	-	-	-	15,562
New services	366,759	-	-	-	366,759
Rural water system	284,133	-	-	-	284,133
Rural water system # 2	740,967	-	-	-	740,967
Totals at historical cost	<u>6,268,466</u>	<u>732,473</u>	<u>-</u>	<u>75,119</u>	<u>7,076,058</u>
Less accumulated depreciation for:					
Plant improvements	\$ (172,486)	\$ (21,673)	\$ -	\$ -	\$ (194,159)
Plant in service	(2,429,387)	(99,885)	-	-	(2,529,272)
Vehicles and equipment	(217,248)	(20,106)	-	-	(237,354)
Office furniture and equipment	(14,860)	(648)	-	-	(15,508)
New services	(327,572)	(5,605)	-	-	(333,177)
Rural water system	(207,502)	(5,432)	-	-	(212,934)
Rural water system # 2	(503,275)	(19,530)	-	-	(522,805)
Total accumulated depreciation	<u>(3,872,330)</u>	<u>(172,879)</u>	<u>-</u>	<u>-</u>	<u>(4,045,209)</u>
Construction in progress	<u>75,119</u>	<u>-</u>	<u>-</u>	<u>(75,119)</u>	<u>-</u>
Capital assets, net	<u>\$ 2,471,255</u>	<u>\$ 559,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,030,849</u>

Depreciation expense for the years ended December 31, 2023 and 2022, was \$176,310 and \$172,879, respectively.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 6 – Retirement Plan – APERS

The Water and Sewer Department contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing, multiple-employer, defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this system. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board).

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 36 months average compensation (60 months for members hired on or after July 1, 2022) times the member's years of service.

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 55 with 35 years of credited service for sheriff and public safety members.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005, are not required to make contributions to APERS. Members who began service on or after July 1, 2005, are required to contribute 5% of their salary. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches the maximum 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2023. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

**CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas**

Notes to Financial Statements

December 31, 2023 and 2022

Note 6 – Retirement Plan – APERS (Cont.)

Contributions (Cont.)

The Water and Sewer Department's contributions to APERS for the years ending December 31, 2023 and 2022, were \$19,589 and \$16,935, respectively.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At December 31, 2023 and 2022, the Water and Sewer Department reported a liability of \$168,114 and \$142,588, respectively, for its proportionate share of the net pension liability.

The collective net pension liability was measured as of June 30, 2023 and 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. As of December 31, 2023 and 2022, the Water and Sewer Department's proportion was .0058 % and .0053%, respectively.

For the years ended December 31, 2023 and 2022, the Water and Sewer Department recognized pension expense of \$35,894 and \$8,274, respectively. At December 31, 2023 and 2022, the Water and Sewer Department's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows 2023</u>	<u>Deferred Outflows 2022</u>	<u>Deferred Inflows 2023</u>	<u>Deferred Inflows 2022</u>
Difference between expected and actual experience	\$ 9,490	\$ 3,422	\$ (924)	\$ (1,721)
Net difference between projected and actual investment earnings on pension plan investments	20,924	30,079	-	-
Changes of assumptions	7,903	-	-	-
Changes in proportion and differences between employer contributions and share of contributions	7,340	5,408	(1,662)	(3,358)
Contributions subsequent to the measurement date	15,750	9,130	-	-
Total	<u>\$ 61,407</u>	<u>\$ 48,039</u>	<u>\$ (2,586)</u>	<u>\$ (5,079)</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 6 – Retirement Plan – APERS (Cont.)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Cont.)

The \$15,750 reported as deferred outflows of resources related to pensions resulting from the Water and Sewer Department’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:

2024	\$ 11,455
2025	5,919
2026	27,113
2027	(1,416)
	\$ 43,071

Actuarial Assumptions

The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2023. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial cost method:	Entry Age Normal
Discount rate:	7.00%
Wage Inflation rate:	3.25%
Salary increases:	3.25% - 11.00%
Investment rate of return*:	7.00%
Mortality Table	The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 114% and 132% of the PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality tables males and females, respectively. The disabled retiree mortality tables, for post-retirement disabled mortality, used in evaluating allowances to be paid were 114% and 132% of the PubNS-2010 Amount-Weighted Disabled Retiree Mortality tables for males and females, respectively. The pre-retirement mortality tables used were 75% of the PubG-2010 Amount-Weighted Below-Median General Employee Mortality tables for active mortality experience. Mortality rates for a particular calendar year are determined by applying the MP-2021 mortality improvement scale to the above described tables.

*Net of investment and administrative expenses

All other actuarial assumptions used in the June 30, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2022, and were applied to all prior periods included in the measurement.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 6 – Retirement Plan – APERS (Cont.)

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for the 10-year period from 2021 – 2030 were based upon capital market assumptions provided by the plan’s investment consultant. For each major asset class included in the plan’s target asset allocation as of June 30, 2023, these best estimates are summarized in the following table:

<u>Asset Allocation</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.19%
International equity	24%	6.77%
Real assets	16%	3.34%
Absolute return	5%	3.36%
Domestic fixed	<u>18%</u>	1.79%
	<u>100%</u>	

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the participating employers’ net pension liability, calculated using the current discount rate, as well as what the participating employers’ net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

	<u>1% Lower 6.00%</u>	<u>Discount Rate 7.00%</u>	<u>1% Higher 8.00%</u>
Net pension liability	<u>\$ 267,959</u>	<u>\$ 168,114</u>	<u>\$ 85,852</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 7 – Compensated Absences

It is the Water and Sewer Department's policy to accumulate earned but unused vacation benefits. Because the number of the Water and Sewer Department's employees is small, the accrued vacation is not expected to be material and is not recorded.

Note 8 – Risk Management

The Water and Sewer Department is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water and Sewer Department purchases commercial insurance coverage in order to limit its exposure to such risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

The Water and Sewer Department participated in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' compensation - this program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised annually based on the cost experience for the particular municipality or group as determined by the workers' compensation commission.

Municipal vehicle program –

- *Liability* – this program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury per person. \$50,000 for bodily injury per accident and \$25,000 for property damage per accident. The Water and Sewer Department shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the Water and Sewer Department.
- *Physical damage* – this program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The Water and Sewer Department agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

The Water and Sewer Department also participates in the self-insured fidelity bond program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$250,000 per occurrence. Premiums for coverage are determined by the state risk manager and approved by the board. These premiums are paid by the state treasurer from funds withheld from the municipal aid fund. There is a \$2,500 deductible per occurrence.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Notes to Financial Statements
December 31, 2023 and 2022

Note 9 – Subsequent Events

Management has evaluated subsequent events through July 22, 2024, the date on which the financial statements were available to be issued. No events were noted which would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CAVE CITY WATER AND SEWER DEPARTMENT

A Proprietary Fund of the City of Cave City, Arkansas

**Schedule of Water and Sewer Department's Proportionate Share
of the Net Pension Liability**

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Water and Sewer Department's proportion of the net pension liability (asset)	0.0058%	0.0053%	0.0058%	0.0054%	0.0046%	0.0057%	0.0056%	0.0061%	0.0057%
	\$ 168,114	\$ 142,588	\$ 44,852	\$ 146,088	\$ 112,022	\$ 125,247	\$ 143,763	\$ 145,932	\$ 104,234
Water and Sewer Department's proportionate share of the net pension liability (asset)	\$ 127,866	\$ 110,542	\$ 116,488	\$ 105,542	\$ 88,858	\$ 101,024	\$ 100,274	\$ 110,563	\$ 100,422
Water and Sewer Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	131.48%	128.99%	38.50%	138.42%	126.07%	123.98%	143.37%	131.99%	103.80%
Plan fiduciary net portion as a percentage of the total pension liability	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%

Ten years worth of data will be presented as it is available.
Fiscal year 2015 was the first year of implementation.

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Schedule of Water and Sewer Department Contributions

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contributions	\$ 19,589	\$ 16,935	\$ 17,846	\$ 16,169	\$ 13,613	\$ 14,901	\$ 14,540	\$ 16,032	\$ 14,822
Contributions in relation to the contractually required contribution	(19,589)	(16,935)	(17,846)	(16,169)	(13,613)	(14,901)	(14,540)	(16,032)	(14,822)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Water and Sewer Department's covered-employee payroll	\$ 127,866	\$ 110,542.0	\$ 116,488	\$ 105,542	\$ 88,858	\$ 101,024	\$ 100,274	\$ 110,563	\$ 100,422
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%	14.76%

Ten years worth of data will be presented as it is available.
Fiscal year 2015 was the first year of implementation.

SUPPLEMENTARY INFORMATION

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Schedule of Revenues and Expenses by Department
Year Ended December 31, 2023

	<u>Department</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
Operating revenues			
Service fees (net of provision of bad debts of \$2,058 for water and \$2,058 for sewer)	\$ 446,773	\$ 196,891	\$ 643,664
Hook-up and reconnection fees	5,768	2,041	7,809
Late charges	9,030	9,001	18,031
Other revenue	42,683	9,259	51,942
Total operating revenues	<u>504,254</u>	<u>217,192</u>	<u>721,446</u>
Operating expenses			
Salaries	124,198	54,544	178,742
Employee benefits	55,898	34,356	90,254
Tools and supplies	6,705	5,567	12,272
Truck expense	2,714	1,156	3,870
Insurance expense	75,564	18,970	94,534
System repairs	14,387	31,610	45,997
Equipment repairs	2,300	2,009	4,309
Computer supplies	2,216	-	2,216
Chemicals	5,050	6,485	11,535
Taxes and licenses	5,500	5,500	11,000
Legal and auditing	53,936	25,231	79,167
Utilities	5,423	3,714	9,137
Office supplies and postage	1,381	-	1,381
Fees and testing	310	4,241	4,551
Depreciation and amortization	88,155	88,155	176,310
Total operating expenses	<u>443,737</u>	<u>281,538</u>	<u>725,275</u>
Operating income (loss)	<u>60,517</u>	<u>(64,346)</u>	<u>(3,829)</u>
Nonoperating revenues (expenses)			
Interest income	2,908	33	2,941
Total nonoperating revenues (expenses)	<u>2,908</u>	<u>33</u>	<u>2,941</u>
Increase (decrease) in net position	<u>\$ 63,425</u>	<u>\$ (64,313)</u>	<u>\$ (888)</u>

See Independent Auditor's Report

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Prior Year Schedule of Revenues and Expenses by Department
Year Ended December 31, 2022

	<u>Department</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
Operating revenues			
Service fees (net of provision of bad debts of \$2,622 for water and \$979 for sewer)	\$ 440,168	\$ 199,328	\$ 639,496
Hook-up and reconnection fees	6,378	1,401	7,779
Late charges	8,121	8,134	16,255
Other revenue	51,604	4,193	55,797
Total operating revenues	<u>506,271</u>	<u>213,056</u>	<u>719,327</u>
Operating expenses			
Salaries	72,079	53,186	125,265
Employee benefits	30,979	12,475	43,454
Truck expense	6,168	4,311	10,479
Insurance expense	3,740	398	4,138
System repairs	56,986	3,238	60,224
Equipment repairs	49,196	30,679	79,875
Computer supplies	5,180	1,893	7,073
Chemicals	1,489	525	2,014
Taxes and licenses	2,312	4,572	6,884
Legal and auditing	5,000	5,000	10,000
Utilities	41,053	19,989	61,042
Office supplies and postage	4,355	3,355	7,710
Miscellaneous	7,044	1,892	8,936
Fees and testing	120	4,263	4,383
Depreciation and amortization	86,439	86,440	172,879
Total operating expenses	<u>372,140</u>	<u>232,216</u>	<u>604,356</u>
Operating income (loss)	<u>134,131</u>	<u>(19,160)</u>	<u>114,971</u>
Nonoperating revenues (expenses)			
ARPA grant funding	399,531	-	399,531
Interest income	1,054	-	1,054
Interest expense	(32)	(31)	(64)
Total nonoperating revenues (expenses)	<u>400,553</u>	<u>(31)</u>	<u>400,522</u>
Increase (decrease) in net position	<u>\$ 534,684</u>	<u>\$ (19,191)</u>	<u>\$ 515,493</u>

See Independent Auditor's Report

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Supplemental Schedule of Users and Consumption
Year Ended December 31, 2023

<u>Month</u>	<u>Consumption</u>	<u>Water Users</u>	<u>Sewer Users</u>
January	6,079,600	1,256	780
February	6,102,200	1,254	778
March	4,617,800	1,252	783
April	5,250,700	1,246	781
May	5,838,100	1,261	787
June	5,883,200	1,263	789
July	7,856,900	1,267	790
August	6,846,330	1,271	793
September	7,123,270	1,275	801
October	6,325,900	1,276	804
November	5,973,400	1,280	801
December	6,262,400	1,279	794
Total consumption	<u>74,159,800</u>		
Monthly averages	<u>6,179,983</u>	<u>1,265</u>	<u>790</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Prior Year Supplemental Schedule of Users and Consumption
Year Ended December 31, 2022

<u>Month</u>	<u>Consumption</u>	<u>Water Users</u>	<u>Sewer Users</u>
January	6,313,955	1,267	793
February	6,026,846	1,267	793
March	7,333,856	1,259	792
April	5,178,336	1,272	796
May	5,860,250	1,269	798
June	5,947,900	1,268	798
July	8,880,300	1,272	794
August	10,793,000	1,268	795
September	7,472,300	1,262	787
October	7,434,840	1,260	788
November	6,052,070	1,259	790
December	6,523,390	1,265	787
Total consumption	<u>83,817,043</u>		
Monthly averages	<u>6,984,754</u>	<u>1,266</u>	<u>793</u>

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Supplemental Schedule of Insurance in Force
Year Ended December 31, 2023

A)	Insurance Carrier:	Arkansas Municipal League/ Arkansas Insurance Department
	Period Covered:	01/01/23 — 12/31/23
	Coverage:	Self-Insured Fidelity (Dishonesty) Bond
	Amount:	\$250,000
	Insured:	All Elected or Appointed Officers, Officials, and Salaried Employees
B)	Insurance Carrier:	Arkansas Municipal League
	Period Covered:	04/21/23 — 04/20/24
	Coverage:	Vehicles
	Amount:	\$218,970
C)	Insurance Carrier:	Arkansas Municipal League
	Period Covered:	01/01/2023— 12/31/23
	Coverage:	Workers' Compensation
	Amount:	Statutory
D)	Insurance Carrier:	Arkansas Municipal League
	Period Covered:	10/31/23 — 11/30/24
	Description:	Buildings, Equipment and Contents at Waste Water Treatment Plant
	Coverage:	Fire, Lightning and Extended Coverage Buildings and Contents
	Amount:	\$1,128,846

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Prior Year Supplemental Schedule of Insurance in Force
Year Ended December 31, 2022

- | | | |
|-----------|--------------------|--|
| A) | Insurance Carrier: | Arkansas Municipal League/ Arkansas Insurance Department |
| | Period Covered: | 01/01/22 — 12/31/22 |
| | Coverage: | Self-Insured Fidelity (Dishonesty) Bond |
| | Amount: | \$250,000 |
| | Insured: | All Elected or Appointed Officers, Officials, and Salaried Employees |
| | | |
| B) | Insurance Carrier: | Arkansas Municipal League |
| | Period Covered: | 04/21/22 — 04/20/23 |
| | Coverage: | Vehicles |
| | Amount: | \$146,470 |
| | | |
| C) | Insurance Carrier: | Arkansas Municipal League |
| | Period Covered: | 01/01/22 — 12/31/22 |
| | Coverage: | Workers' Compensation |
| | Amount: | Statutory |
| | | |
| D) | Insurance Carrier: | Arkansas Municipal League |
| | Period Covered: | 10/31/22 — 11/30/23 |
| | Description: | Buildings, Equipment and Contents at Waste Water Treatment Plant |
| | Coverage: | Fire, Lightning and Extended Coverage Buildings and Contents |
| | Amount: | \$1,095,967 |

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Supplemental Schedules of Water and Sewer Rates
Years Ended December 31, 2023 and 2022

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
<u>Water Rates</u>		
City		
From 0 to 1,000	\$11.50	\$11.50
From 1,000 and above	\$4.58 per 1,000 gallons	\$3.50 per 1,000 gallons
Library Rate		
From 0 to 3,500	Free	Free
From 3,500 to 4,500	\$11.50	\$11.50
From 4,500 and above	\$3.50 per 1,000 gallons	\$3.50 per 1,000 gallons
<u>Sewer Rates</u>		
City		
From 0 to 1,000	\$9.75	\$ 9.75
From 1,000 and above	\$2.25 per 1,000 gallons	\$ 2.25 per 1,000 gallons
Library Rate		
From 0 to 3,500	Free	Free
From 3,500 to 4,500	\$9.75	\$ 9.75
From 4,500 and above	\$2.25 per 1,000 gallons	\$ 2.25 per 1,000 gallons
Reconnect fee	\$50.00	\$50.00
Cleaning fee	\$15.00	\$15.00
Connection/Transfer fee	\$20.00	\$20.00
Returned check fee	\$30.00	\$30.00
Late fees	10% of user's bill	10% of user's bill

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Supplemental Schedules of City Officials
Years Ended December 31, 2023 and 2022

For the year ended December 31, 2023:

		<u>Term Expires</u>
Mayor	Jonas Anderson	December 31, 2024
Clerk/Recorder	Tammy Smith	December 31, 2024
Council Persons:	Hana Smith	December 31, 2024
	Jill Carr	December 31, 2024
	Ed Turnbough	December 31, 2024
	Eddie Johnson	December 31, 2024
	Richard Hawkins, II	December 31, 2024
	A. Dale King	December 31, 2024
	John Ables	December 31, 2024
	Kenneth Wilson	December 31, 2024

For the year ended December 31, 2022:

		<u>Term Expires</u>
Mayor	Jonas Anderson	December 31, 2022
Clerk/Recorder	Tammy Smith	December 31, 2022
Council Persons:	Hana Smith	December 31, 2022
	Melanie Cheshier	December 31, 2022
	Ed Turnbough	December 31, 2022
	Eddie Johnson	December 31, 2022
	Richard Hawkins, II	December 31, 2022
	A. Dale King	December 31, 2022
	John Ables	December 31, 2022
	Kenneth Wilson	December 31, 2022



Welch, Couch & Company, PA Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and City Council of
Cave City Water and Sewer Department
Cave City, 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 Cave City Water and Sewer Department, a proprietary fund of the City of Cave City, Arkansas as of and for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated July 22, 2024.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as items #2023-01, that we consider to be a significant deficiency.

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Salem: PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

West Plains: 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

Little Rock: 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cave City Water and Sewer 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*.

Cave City Water and Sewer Department's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Cave City Water and Sewer Department's response to the finding identified in our audit and described in the accompanying schedule of findings and management responses. The Water and Sewer Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Welch, Couch & Company, PA
Welch, Couch & Company, PA
Certified Public Accountants

Batesville, Arkansas
July 22, 2024

CAVE CITY WATER AND SEWER DEPARTMENT
A Proprietary Fund of the City of Cave City, Arkansas
Schedule of Findings and Management Responses
December 31, 2023

Financial Statement Finding

Significant Deficiency

2023-01 – Financial Reporting

Condition: The Water and Sewer Department prepares its interim financial statements on the cash basis of accounting, whereby certain revenues and the related assets are recognized when received, and expenses are recognized when paid. Significant audit adjustments are proposed annually to adjust books of record to accrual basis.

Criteria: The accrual basis of accounting should be in use to show revenues and related assets are recorded when earned and expenses are recorded when the obligation is incurred.

Cause: The Water and Sewer Department uses the cash basis for interim purposes because it is less burdensome.

Effect: Failure to record account activity on the accrual basis of accounting will cause inaccurate financial reporting.

Recommendation: We recommend that the accrual basis of accounting be used throughout the year. Under that basis, revenues and related assets are recorded when earned and expenses are recorded when the obligation is incurred. The accrual basis is required by accounting principles generally accepted in the United States of America since it results in financial statements that reflect the complete effects of an entity's financial transactions for a period.

Management Response: Management concurs with the finding and understands the accrual basis is required by accounting principles generally accepted in the United States of America since it results in financial statements that reflect the complete effects of an entity's financial transactions for a period.



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July 22, 2024

To the Honorable Mayor and City Council of
Cave City Water and Sewer Department
Cave City, Arkansas

We have audited the financial statements of the business-type activities of Cave City Water and Sewer Department (the Water and Sewer Department), a proprietary fund of City of Cave City, Arkansas, for the year ended December 31, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 2, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cave City Water and Sewer Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2023. We noted no transactions entered into by the Cave City Water and Sewer Department during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates effecting the Water and Sewer Department's financial statements were:

Management's estimate of depreciation expense is based off of the cost and useful lives assigned to capital assets. We evaluated the methods, assumptions, and data used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Management used actuarial calculations to estimate net pension liability, deferred pension outflows, and deferred pension inflows. We reviewed the actuarial reports regarding the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatement detected as a result of audit procedures was corrected by management:

<u>Proposed Audit Adjustments Recorded</u>	<u>Financial Statement Effect</u>
To adjust capital assets and accumulated depreciation	\$ (206,962)

Disagreements with Management

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 22, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cave City Water and Sewer Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cave City Water and Sewer Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, Schedule of Water and Sewer Department's Proportionate Share of the Net Pension Liability, and Schedule of Water and Sewer Department Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our

Honorable Mayor and City Council
Cave City Water and Sewer Department
Page 3
July 22, 2024

audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on other supplementary information, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of the Mayor, City Council and management of Cave City Water and Sewer Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Welch, Couch & Company, PA
Certified Public Accountants