

COTTON PLANT WATER
AND SEWER DEPARTMENT
FINANCIAL STATEMENTS (AUDITED)
DECEMBER 31, 2020

MEYER & WARD, P.A.
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COTTON PLANT WATER AND SEWER DEPARTMENT

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 5
Statement of Net Position	6 - 7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10 – 14
Independent Auditors Report on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	15 – 16
Schedule of Findings	17 - 19
Budgetary Comparison Schedule	20

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INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
Cotton Plant Water and Sewer Department
Cotton Plant, AR

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the Cotton Plant Water and Sewer Department, a component unit of the City of Cotton Plant, AR as of and for the year ended December 31, 2020, and the related notes to the financial statements which collectively comprise the Cotton Plant Water and Sewer Department's basic financial statements as listed in the table of contents.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with *Government Auditing Standards*, and auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Detailed records were not maintained for cash disbursements, payroll or accounts payable. Therefore, we were not able to obtain sufficient appropriate audit evidence about the accompanying financial statements as of and for the year ended December 31, 2020.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and 20 be presented to supplement the basic financial statements. Such information, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2022, on our consideration of the Cotton Plant Water and Sewer Department's internal control over financial reporting and our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

December 2, 2022

**COTTON PLANT WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

Within this section of the Cotton Plant Water and Sewer Department's (the Entity) financial report, the Entity's management provides narrative discussion and analysis of the financial activities of the Entity for the year ended December 31, 2020. The Entity's financial performance is discussed and analyzed with the context of the accompanying financial Statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Entity as a whole and present a longer-term view of the Entity's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the Notes to Financial Statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Cotton Plant Water and Sewer Department as a whole

Our analysis of the Entity as a whole follow in the next section. The Entity operates as business-type activity providing water utilities to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Entity's finances is "Is the Entity as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Entity as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. 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 Entity's net position and changes in them. You can think of the Entity's net position (the difference between assets and liabilities) as one way to measure the Entity's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving, or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Entity.

COTTON PLANT WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020

Financial Highlights

	<u>2020</u>	<u>2019</u>
Beginning Net Position	\$ 1,950,154	\$ 2,034,229
Increase (decrease) in Net Position	<u>(91,783)</u>	<u>(84,075)</u>
Ending Net Position	<u>\$ 1,858,371</u>	<u>\$ 1,950,154</u>

The following table summarizes the net position:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 36,278	\$ 54,128
Restricted assets	68,597	64,688
Capital assets	<u>2,517,163</u>	<u>2,620,472</u>
Total assets	<u>\$ 2,622,038</u>	<u>\$ 2,739,288</u>
Current Liabilities	\$ 132,490	\$ 126,560
Long-term liabilities	<u>631,177</u>	<u>662,574</u>
Total liabilities	<u>763,667</u>	<u>789,134</u>
Net position		
Unrestricted	(13,384)	13,118
Restricted for debt service	17,164	16,619
Invested in capital assets	<u>1,854,591</u>	<u>1,920,417</u>
Total Net position	<u>\$ 1,858,371</u>	<u>\$ 1,950,154</u>

The following schedule presents a summary of revenues and expenditures for the years ended December 31, 2020, and 2019.

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ 165,242	\$ 172,455
Operating Expenses	<u>232,999</u>	<u>221,618</u>
Operating Income	(67,757)	(49,163)
Other Income (Expenses)	<u>(24,026)</u>	<u>(34,912)</u>
	<u>\$ (91,783)</u>	<u>\$ (84,075)</u>

**COTTON PLANT WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At year-end December 31, 2020, the Entity had \$ 2,517,163 invested in capital assets. This represents a net decrease of \$ 103,309 which is the result of depreciation expense recognized and equipment purchased of \$ 1,800.

Debt

At year-end, the Entity had \$ 662,572 in outstanding bonds and notes payable. This represents a net decrease of \$ 37,482 which is the result of loan repayments. There were no new borrowings for the year ended December 31, 2020.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Entity has plans for significant water and sewer system improvements. The Entity will seek Federal and State Grant funds to pay for improvements. No rate increase is anticipated.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clara Brown, Cotton Plant, Arkansas.

COTTON PLANT WATER AND SEWER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS	
CURRENT ASSETS:	
Cash on hand and in banks	\$ 346
Accounts receivable	35,932
Total Current Assets	<u>36,278</u>
RESTRICTED ASSETS:	
Cash in bank	68,597
Total Restricted Assets	<u>68,597</u>
PROPERTY, PLANT AND EQUIPMENT:	
Water and Sewer System	5,437,327
Equipment	38,570
Building	15,346
Land	19,694
Furniture and Equipment	9,290
	<u>5,520,227</u>
Less: Accumulated Depreciation	<u>(3,003,064)</u>
Net Property, Plant and Equipment	<u>2,517,163</u>
 TOTAL ASSETS	 <u><u>\$ 2,622,038</u></u>

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

COTTON PLANT WATER AND SEWER DEPARTMENT
STATEMENT OF NET POSITION
DECEMBER 31, 2020

LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Current portion of long-term debt	\$ 68,173
Accounts payable	18,163
Accrued interest	884
Total Current Liabilities	<u>87,220</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	
Customer meter deposits	<u>45,270</u>
NONCURRENT LIABILITIES	
Due to General Fund	<u>36,778</u>
LONG-TERM DEBT, less current portion	<u>594,399</u>
NET POSITION	
Invested in capital assets, net of related debt	1,854,591
Restricted for debt service	17,164
Unrestricted Net Position (Deficit)	<u>(13,384)</u>
TOTAL NET POSITION	<u>1,858,371</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,622,038</u>

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

COTTON PLANT WATER AND SEWER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

OPERATING REVENUES	
Water fees	\$ 108,914
Sewer fees	55,645
Other revenues	683
Total Operating Revenue	<u>165,242</u>
OPERATING EXPENSES:	
Depreciation	105,109
Lab fees	4,285
Office supplies	1,269
Operating supplies and maintenance	9,745
Salaries	91,929
Truck expense	243
Professional Fees	1,500
Taxes, licenses, dues and fees	164
Utilities	18,755
Total Operating Expenses	<u>232,999</u>
Income (Loss) from Operations	<u>(67,757)</u>
OTHER INCOME AND (EXPENSES)	
Interest expense	(24,080)
Interest income	54
Net Other Income (and Expense)	<u>(24,026)</u>
CHANGE IN NET POSITION, INCREASE (DECREASE)	(91,783)
NET POSITION, BEGINNING	1,950,154
NET POSITION, ENDING	<u><u>\$ 1,858,371</u></u>

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

COTTON PLANT WATER AND SEWER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
DECEMBER 31, 2020

Cash Flows From Operating Activities:	
Receipts from customers	\$ 158,962
Payments to suppliers and others	(57,689)
Payments to employees	(91,929)
Net cash provided by operating activities	<u>9,344</u>
Cash flows from noncapital financing activities	
Advances from General Fund	61,091
Net cash used by noncapital financing activities	<u>61,091</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	(37,482)
Purchase of property and equipment	(1,800)
Interest paid on capital debt	(29,215)
Net cash provided (used) by capital and related activities	<u>(68,497)</u>
Cash flows from investing activities	
Interest income	54
Transfers (to) from other funds	
Transfers (to) from restricted accounts	(3,909)
Net cash provided (used) by investing activities	<u>(3,855)</u>
Increase (decrease) in cash and cash equivalents	(1,917)
Cash and cash equivalents, beginning of year	2,263
Cash and cash equivalents, end of year	<u>\$ 346</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ (67,757)
Depreciation and Amortization	105,109
(Increase) Decrease in:	
Accounts receivable	(8,380)
Due from general fund	
Increase (Decrease) in :	
Accounts Payable	(12,311)
Accrued and withheld payroll tax	(9,417)
Customer Meter Deposits	2,100
	<u>\$ 9,344</u>

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

COTTON PLANT WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ORGANIZATION – Cotton Plant Water and Sewer Department is a department of the City of Cotton Plant, AR. The water and sewer system serves property located within the corporate limits of the City of Cotton Plant and certain properties located outside the city limits. The financial statements present only the Water and Sewer Department fund and are not intended to be government wide financial statements for the City of Cotton Plant.

BASIS OF ACCOUNTING – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles as applied to governmental entities.

ACCOUNTS RECEIVABLE – Accounts Receivable is presented at estimated net realizable value. The specific charge – off method is used to record bad debt expense. Revenues are presented net of provisions for bad debt expenses. No material difference results from use of the specific charge off method instead of allowance method as required by generally accepted accounting principles. Accounts receivable results from water services provided to consumers. Accounts receivable is collateralized by customer deposits.

PROPERTY AND EQUIPMENT – Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized while minor replacements, maintenance, and repairs, which do not improve or extend the life of such assets, are charged to operations as incurred. Depreciation is provided by the straight- line method over the estimated useful lives of the assets. Estimated useful lives range are 5 – 10 years for office furniture and equipment to 40 years for water system.

CASH AND CASH EQUIVALENTS – The Cotton Plant Water and Sewer Department considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

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

ADVERTISING – Advertising costs are expensed when incurred.

SALES TAXES - The Entity collects state and local sales tax on water sales. Sales revenues are presented net of sales taxes paid.

OPERATING REVENUES AND EXPENSES – Operating revenues and expenses consists of those revenues that result from ongoing operations, and are primarily charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary services.

COTTON PLANT WATER AND SEWER DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020

NOTE B – RESTRICTED ASSETS:

Restricted funds consist of the following amounts:

Cash:		
Repair and Replacement (depreciation)	\$	6,638
Rural Development Debt Service Reserve		16,755
Revenue Bond Fund		409
Customer's Deposit Reserve		44,795
	<u>\$</u>	<u>68,597</u>

The customer's deposit reserve is established to cover the Cotton Plant Water and Sewer Department's liability for customer deposits of \$ 45,270 as of December 31, 2020.

The Cotton Plant Water and Sewer Department is required to accumulate the following depreciation and debt service reserves in separate bank accounts pursuant to terms of the USDA loan agreements.

Depreciation Reserve – The Cotton Plant Water and Sewer Department is required to place \$ 1,250 each month into a deprecation reserve for short- lived assets.

Debt Service Reserve Account – One tenth of the next month's loan payments, \$ 216 per month each month for ten years, until \$ 25,848 is accumulated. This is in addition to the continuing requirement of \$ 151 per month until \$ 18,048 has been accumulated.

At December 31, 2020 Cotton Plant Water and Sewer Department should have had \$ 43,896 in the USDA Debt Service reserve account, the actual amount held was \$ 17,164.

For the year ended December 31, 2020, Cotton Plant Water and Sewer Department should have transferred \$ 15,000 in the USDA Depreciation Reserve Account. There was \$ 1,264 transferred into the account.

Also, according to the terms of the note agreement with Arkansas Natural Resources Commission, Cotton Plant Water and Sewer Department is required to establish a separate depreciation reserve, at year end no reserve had been established.

COTTON PLANT WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE C – LONG –TERM DEBT:

Notes Payable consists of the following:

4.5 % Note Payable to USDA due in monthly installments of \$ 1,504 through 2034. Secured by water and sewer system and pledge of future revenues.	\$ 186,077
5 % Note Payable to Arkansas Natural Resource Commission due in monthly installments of \$ 2,000 through June 2025, secured by pledge of future revenue	93,943
4.5 % Note Payable to USDA. due in monthly installments of \$ 836 per month through 2035, secured by water and sewer system and pledge of future revenues.	109,582
3.0% Note Payable to Arkansas Natural Resources Commission, due in full by 2021	\$7,008
2.5% Note Payable to USDA, due in monthly installments of \$ 335, through 2049, secured by pledge of future revenues	82,433
4.5 % Note Payable to USDA, due in monthly installments of \$ 1,320 through 2035, secured by water and sewer system and pledge of future revenues.	173,383
5.9% Note Payable to Communities Unlimited, due in monthly installments of \$818, through 2022	10,146
	\$ 662,572
Less current portion	(68,173)
	\$ 594,399

COTTON PLANT WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE C – LONG –TERM DEBT – Cont'd

At December 31, 2020 a schedule of the future payments required is as follows:

	Principal	Interest	Total
For the years ending December 31,			
2021	\$ 68,173	\$ 24,105	\$ 92,278
2022	50,283	21,551	71,834
2023	44,093	20,377	64,470
2024	45,261	19,209	64,470
2025	41,307	17,877	59,184
For the 5 year periods ended December 31,			
2030	171,552	68,148	239,700
2035	192,764	26,811	219,575
2040	17,451	4,959	22,410
2045	17,171	2,929	20,100
2050	14,517	714	15,231
	\$ 662,572	\$ 206,680	\$ 869,252

A summary of long-term debt activity is as follows:

Balance 1/1/2020	Additions	Reductions	Balance 12/31/2020
\$ 700,054	\$ -	\$ 37,482	\$ 662,572

NOTE D – CONTINGENCIES

The Cotton Plant Water and Sewer Department is subject to governmental regulations regarding water quality and waste disposal. Fines may result from noncompliance.

NOTE E- CONCENTRATION OF CREDIT RISKS

Cash:

The Cotton Plant Water and Sewer Department maintains cash balances at a local bank. Deposits did not exceed FDIC insurance coverage at year-end.

Sales:

All of the Cotton Plant Water and Sewer Department revenues are earned from water and sewer services provided to the citizens of Cotton Plant, Arkansas.

COTTON PLANT WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE G - PROPERTY AND EQUIPMENT

A Summary of activity for property plant and equipment accounts is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets not subject to depreciation:				
Land	\$ 19,694			\$ 19,694
	<u>19,694</u>	<u>-</u>	<u>-</u>	<u>19,694</u>
Assets subject to depreciation				
Water and Sewer System	5,437,327		-	5,437,327
Equipment	36,770	1,800	-	38,570
Building	15,346			15,346
Furniture and equipment	9,290			9,290
	<u>5,498,733</u>	<u>1,800</u>	<u>-</u>	<u>5,500,533</u>
Total	<u>\$ 5,518,427</u>	<u>\$ 1,800</u>	<u>\$ -</u>	<u>\$ 5,520,227</u>
Accumulated Depreciaton	<u>\$ 2,897,955</u>	<u>\$ 105,109</u>	<u>\$ -</u>	<u>\$ 3,003,064</u>

NOTE H - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report. No events were noted which would require disclosure.

NOTE I – NET POSITION

Net position is divided into three components:

- Net investment in capital assets- consist of historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position – consists of assets that are restricted by creditors (for example through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

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

Board of Directors
Cotton Plant Water and Sewer Department
Cotton Plant, AR

We were engaged to 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, the financial statements of the business type activities of the Cotton Plant Water and Sewer Department as of and for the year ended December 31, 2020, and the related notes to the financial statements, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion .

Internal Control Over Financial Reporting

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

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #20-04 and #20-05 to be material weaknesses.

A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item #20-03.

Compliance and other matters

As part of obtaining reasonable assurance about whether Cotton Plant 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that is required to be reported under *Government Auditing Standards*. These findings are described in the accompanying schedule of findings and questioned costs as findings:

No. # 20-1 and # 20-2

The Entity's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, and others within the organization, and federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

December 2, 2022

COTTON PLANT WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020

Summary of Audit Results –

1. The auditor's report disclaimed an opinion on the financial statements of Cotton Plant Water and Sewer Department.
2. Three control deficiencies were disclosed during the audit of the financial statements.
3. Two instances of noncompliance material to the financial statements of Cotton Plant Water and Sewer Department was disclosed during the audit.

Compliance Finding # 20-01

FAILURE TO MAINTAIN ADEQUATE BALANCE IN RESERVE ACCOUNT

Condition: The Cotton Plant Water and Sewer Department is required to transfer funds monthly to a reserve account to fund future repairs, replacements, and debt payments. The USDA debt service reserve account balance was \$ 17,164. The balance should have been \$ 43,896. We also noted that no separate depreciation reserve had been established for the Arkansas Natural Resource Commission loan as required by the note agreement.

Criteria: Internal control procedures should be in place to ensure that funds are transferred on a monthly basis in amounts sufficient to comply with reserve requirements.

Effect: Failure to maintain required amounts in restricted accounts is non-compliance with the terms of the loan agreement.

Recommendation: Management should review monthly financial statements and records to ensure that required transfers are made.

Response:

We concur with the auditor's recommendation; funds will be transferred monthly in accordance with requirements as funds are available.

COTTON PLANT WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES –cont'd
FOR THE YEAR ENDED DECEMBER 31, 2020

Compliance Finding # 20-02

Criteria – The Entity is required to file payroll tax reports and make payroll tax deposits on a timely basis.

Condition: No supporting documentation was available to verify payroll tax reports were filed timely, or deposits were made timely. Additionally, no payroll check detail was available to determine what amounts were withheld, and appropriate amounts to be deposited.

Effect: Failure to pay penalties and failure to file penalties result from noncompliance.

Recommendation: Future payroll tax deposits and reports should be done by the required due dates, and supporting documents maintained.

Response: Future reports will be filed timely, and payments made by due dates.

20-03 – Internal Control – Segregation of duties

Condition: The Entity does not have enough employees to provide for appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

Effect: Inadequate segregation of duties reduces the Entity's control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: The Mayor and Council should review all transactions, and accounting records, in order to compensate for the limited number of employees.

Response: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, management supervises all employees, and the council reviews all financial records.

COTTON PLANT WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES –cont'd
FOR THE YEAR ENDED DECEMBER 31, 2020

#20- 04 – Internal Controls Bank Account Reconciliations

CONDITION – Bank Accounts were not properly reconciled. Differences noted are not properly investigated and corrected on a timely basis.

CRITERIA – Bank reconciliations should be prepared monthly for all significant bank accounts. Properly prepared bank reconciliations help ensure that all cash receipts and disbursements are posted, and help identify transactions posted that did not actually occur.

RECOMMENDATION - All significant accounts should be reconciled monthly by a person who is not otherwise involved in authorizing, initiating, executing, or recording cash transactions. The reconciliation should be reviewed and approved by a member of management.

RESPONSE: Management will improve the reconciliation process through the implementation of these procedures.

#20-05 –Cash disbursements

CONDITION – No supporting documentation was maintained for accounts payable or payroll disbursements.

CRITERIA – Supporting documents for all cash disbursements should be maintained. Documents should provide evidence that cash is disbursed for valid purposes, and all disbursements are properly authorized and recorded.

RECOMMENDATION – No disbursement should be made without appropriate supporting documentation. A file structure should be designed so that all information can be located quickly and easily.

RESPONSE: Management will maintain appropriate documentation for all future disbursements.

COTTON PLANT WATER AND SEWER DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Actual	BUDGET	VARIANCE
OPERATING REVENUES			
Water fees	\$ 108,914	\$ 215,000	\$ (106,086)
Sewer fees	55,645		55,645
Other revenues	683	36,000	(35,317)
Total Operating Revenue	<u>165,242</u>	<u>251,000</u>	<u>(85,758)</u>
OPERATING EXPENSES:			
Advertising			-
Contract Labor			-
Depreciation	105,109		(105,109)
Insurance		2,500	2,500
Lab fees	4,285	18,000	13,715
Office supplies	1,269	2,800	1,531
Operating supplies and maintenance	9,745	12,000	2,255
Professional fees	1,500		(1,500)
Salaries	91,929	120,000	28,071
Truck expense	243		(243)
Taxes, licenses, dues and fees	164	700	536
Utilities	18,755	23,700	4,945
Total Operating Expenses	<u>232,999</u>	<u>179,700</u>	<u>(53,299)</u>
Income (Loss) from Operations	<u>(67,757)</u>	<u>71,300</u>	<u>(139,057)</u>
OTHER INCOME AND (EXPENSES)			
Interest expense	(24,080)		(24,080)
Note payments	-	(60,000)	60,000
Interest income	54	-	54
Net Other Income (and Expense)	<u>(24,026)</u>	<u>(60,000)</u>	<u>35,974</u>
CHANGE IN NET POSITION, INCREASE (DECREASE)	<u>\$ (91,783)</u>	<u>\$ 11,300</u>	<u>\$ (103,083)</u>