

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2023

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

TABLE OF CONTENTS

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

BRIAN L. HAAS, CPA

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

Phone: (870) 424-2181

Fax: (870) 425-1339

Arkansas License No. 4723R

INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the accompanying financial statements of the City of Cotter Municipal Water and Wastewater Fund of the City of Cotter, Arkansas, as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Cotter Municipal Water and Wastewater Fund of the City of Cotter, Arkansas, as of December 31, 2023, and the changes in its financial position and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Cotter Municipal Water and Wastewater Fund, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Cotter Municipal Water and Wastewater Fund and do not purport to, and do not, present fairly the financial position of the City of Cotter, Arkansas as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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, I:

- 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 Fund'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.

I am 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 I 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 and budgetary comparison information on pages 4 - 8 and 25-26 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cotter Water and Wastewater Fund's basis financial statements. The Schedule of Water Budget, Sewer Budget, Budgetary Comparison information, Users by Class, and Water Rates is presented for the purpose of additional analysis and are not a required part of the basic financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated May 22, 2024, on my consideration of the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an *audit performed in accordance with Government Auditing Standards* in considering the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and compliance.



Brian Haas, CPA
Mountain Home, AR 72653
May 22, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Cotter Municipal Water and Wastewater Fund, we offer readers of the Municipal Water and Wastewater Fund's financial statements this narrative overview and analysis of the Municipal Water and Wastewater Fund's financial performance during the fiscal year ended December 31, 2023. Please read it in conjunction with the Municipal Water and Wastewater Fund's financial statements, which follow this section.

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

FINANCIAL HIGHLIGHTS

As of December 31, 2023:

- The Municipal Water and Wastewater Fund's assets exceeded its liabilities by \$1,063,090 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,058,086.
- Total net assets are comprised of the following:
 - Capital assets, net of related debt of \$309,373, including property and equipment net of accumulated depreciation.
- Temporarily restricted assets of \$509,040 are reserved by constraints imposed by outside the Municipal Water and Wastewater Fund, such as debt covenants, grantors, laws or regulations.
- Unrestricted assets of \$210,926 represent portion available to maintain ongoing operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

REQUIRED FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS OF THE MUNICIPAL WATER AND WASTEWATER FUND

- The Municipal Water and Wastewater Fund's net assets decreased due to an excess of operating expenses over revenue of \$77,341. However, a significant portion of this is the depreciation deduction. Total revenues were up from 2022 by \$126,758. Total operating expenses were up in 2023. In 2023, \$669,427 as compared to \$587,527 in 2022.

NET POSITION

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

Table A-1
The Water and Sewer Fund 's Net Position
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 223,902	\$ 179,403
Capital and non-current assets	<u>839,188</u>	<u>877,751</u>
Total assets	1,063,090	1,057,154
Current liabilities	12,976	10,584
Long-term liabilities	<u>20,775</u>	<u>20,775</u>
Total liabilities	<u>33,751</u>	<u>31,359</u>
Fund net position	<u>1,029,339</u>	<u>1,025,795</u>
Invested in capital assets net of related debt	\$ 309,373	\$ 433,264
Temporarily restricted assets	509,040	423,711
Unrestricted assets	<u>210,926</u>	<u>168,820</u>
Total fund net position	<u>\$1,029,339</u>	<u>\$1,025,795</u>

The Municipal Water and Wastewater Fund's net position increased by \$3,587 over 2022.

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

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

BUDGETARY HIGHLIGHTS

For 2023, the Municipal Water and Wastewater Fund's revenues were higher than budgeted estimates by \$103,099. Expenses were lower than budget estimates. Total operating expenses were approximately \$15,690 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

- Capital Assets

At the end of 2023, the Municipal Water and Wastewater Fund had invested \$3,633,531 in a broad range of assets, including land, water distribution system, equipment and vehicles.

This was only a slight increase over 2022. Additional information regarding Capital Assets is available in the Notes to the Basic Financial Statements.

Land and land rights	\$ 66,220
System and Improvements	3,143,412
Machinery & Equipment	317,171
Vehicles	<u>106,728</u>
Total property and equipment	3,633,531
Less accumulated depreciation	<u>(3,324,158)</u>
Property and equipment - net	\$ 309,373

ECONOMIC FACTORS NEXT YEAR'S BUDGET AND RATES

Some of the notable accomplishments of the Municipal Water and Wastewater Fund for 2023 were as follows:

- In May of 2023, a special election was held and a 1% City sales and use tax passed. That revenue will be used for Phase II of the Ductile Iron project.
- In November of 2023, the City closed on the loan of \$1,551,000 for the Sewer Rehabilitation Project Phase II-b (Ductile Iron). This note shared by the City of Gassville (66%) is a 40 year note, payable in monthly installments of \$4,498.

The note also requires funds to be paid into two additional accounts. A debt service account until it reaches \$53,976 and a short-lived asset account until it reaches \$113,750. Both cities are setting aside these funds as required.

- The City of Cotter continues to set aside funds for future water projects, ie: water tower maintenance and painting.

CONTACTING THE MUNICIPAL WATER AND WASTEWATER FUND'S FINANCIAL MANAGER

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

Stefanie Wright
115 McLean Avenue
P.O. Box 9
Cotter, Arkansas 72626

Phone number: (870) 435-6326

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2023

ASSETS

CURRENT ASSETS:

Cash	\$ 156,826
Accounts receivable - consumers	40,336
Inventory - materials and supplies	<u>26,740</u>
Total current assets	223,902

RESTRICTED ASSETS:

Meter deposit fund	22,396
Waterline replacement	178,700
Capital improvements fund	123,221
Water improvement fund	191,111
Sewer 605	4,029
Water 605	10,358
Wastewater capital reserve fund	-
CSLC capital reserve fund	-
Ductile Iron reserve fund	<u>-</u>
Total restricted assets	529,815

PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment	3,633,531
Accumulated depreciation	<u>(3,324,158)</u>
Property, plant and equipment - net	<u>309,373</u>
Total assets	<u>\$ 1,063,090</u>

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET POSITION - PROPRIETARY FUND

DECEMBER 31, 2023

LIABILITIES AND NET POSITION

CURRENT LIABILITIES - PAYABLE FROM CURRENT ASSETS:	
Accounts payable - trade	\$ 7,983
Accounts payable - sanitation	4,993
Sales tax payable	-
Current maturities long-term debt	-
	-
Total from current liabilities	12,976
CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:	
Meter deposits	20,775
	20,775
Total from restricted assets	20,775
LONG-TERM LIABILITIES:	
Note payable - equipment	-
Note payable - Ductile Iron	-
Less current maturities	-
	-
Total long-term liabilities - net	-
Total liabilities	33,751
NET POSITION:	
Invested in capital assets, net of related debt	309,373
Temporarily restricted	509,040
Unrestricted	210,926
	210,926
Total net position	1,029,339
Total liabilities and net position	\$ 1,063,090

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

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

DECEMBER 31, 2023

OPERATING REVENUES:

Water service	\$ 331,703
Wastewater service fees	135,826
Penalties and service fees	5,614
SDWA fees	2,197
Tap-on fees	4,950
Permits	3,172
Sanitation billing fees	62,810
Street fund transfer	6,713
Interdepartmental transfers	-
Reimbursements	-
Sales tax	37,776
Miscellaneous income	<u>1,325</u>
Total operating revenues	592,086

OPERATING EXPENSES

Advertising	-
Bad debts	-
Bank fees	276
Booster Pump	-
Chemical expense	4,025
Contract Labor	-
Depreciation expense	131,892
Dues and licenses	5,358
Fuel and oil	4,861
Fire Hydrants	14,815
Insurance - general	2,171
Insurance - health	14,179
Lift station	2,025
Meeting and training	1,326
Miscellaneous	(1,371)
Office supplies and postage	4,650
Operating expense - WWTF	65,686
Operating expense - CSLC	50,624
Payroll taxes	9,776
Pension contribution	20,784
Ductile Iron Phase II	5,500

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

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

DECEMBER 31, 2022

Permits	-
Professional fees	6,500
Refunds	-
Repairs and maintenance	39,909
Salaries and wages	135,873
Sales taxes	35,442
Sanitation	60,311
SDWA	2,225
Supplies and materials	19,524
Water purchase	2,214
Work Comp	2,114
Unemployment	79
Street repairs	1,012
Uniforms	1,038
Utilities	<u>26,609</u>
Total operating expenses	<u>669,427</u>
Operating income (loss)	(77,341)
NON-OPERATING REVENUE (EXPENSES):	
Interest income	16,315
Deposits	550
Transfer from general fund	57,328
Property settlement	(13,023)
	<u>19,758</u>
Total non-operating revenue (expenses)	<u>80,928</u>
Change in fund net position	3,587
Net position as of beginning of year	<u>1,025,752</u>
Net position as of end of year	<u><u>\$ 1,029,339</u></u>

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 52,792
Cash payments to suppliers for goods and services	-
Cash payments for employees services and payroll taxes	-
	-
Net cash provided (used) by operations	52,792

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

	-
	-
	-
	-
Net cash provided by capital financing activities	-

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Cash used by increase in restricted assets	(85,328)
Cash provided by general fund transfer	57,328
	-
Net cash used by non-capital financing activities	(28,000)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	16,315
Purchase of equipment	(8,046)
Property settlement	(13,023)
	19,758
	550
	-
Net cash provided by (applied to) investing activities	15,554

INCREASE (DECREASE) IN CASH	40,346
CASH - BEGINNING OF YEAR	116,480
CASH - END OF YEAR	\$ 156,826

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
(Continued)

For the year ended December 31, 2023

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

Operating income (loss)	\$ (77,341)
Depreciation expense	131,892
Changes in:	
Accounts receivable	(4,151)
Inventory	-
Accounts payable - trade	2,448
Accounts payable - sanitation	(56)
	<hr/>
Net cash provided by operating activities	52,792

NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

	<hr/>
	-
	<hr/>
	\$ 52,792
	<hr/> <hr/>

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY:

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

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

BASIS OF ACCOUNTING:

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

BUDGETS AND BUDGETARY ACCOUNTING:

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

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

APPLICATION OF RESTRICTED ASSETS:

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

APPLICATION OF RESTRICTED ASSETS (continued):

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

CASH AND CASH EQUIVALENTS:

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

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

Current cash	\$ 156,826
Restricted cash	<u>529,815</u>
Total on deposit	686,641
Insured by the FDIC or collateralized by financial institution	<u>686,641</u>
Uninsured and uncollateralized	<u><u>\$ -</u></u>

ACCOUNTS RECEIVABLE:

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

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES:

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

RESTRICTED ASSETS:

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

PROPERTY, PLANT AND EQUIPMENT:

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

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

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

ACCOUNTS PAYABLE:

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

ESTIMATES:

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (continued):

	Capital assets, depreciated				<u>Total</u>
	<u>Land rights</u>	<u>System & improve.</u>	<u>Machinery & equipment</u>	<u>Vehicles</u>	
Balance, December 31, 2022	\$ 66,220	\$ 3,136,172	\$ 316,365	\$ 106,728	\$ 3,625,485
Additions			8,044		8,044
Dispositions					-
Balance, December 31, 2023	<u>66,220</u>	<u>3,136,172</u>	<u>324,409</u>	<u>106,728</u>	<u>3,633,529</u>
Accumulated depreciation					
Balance, December 31, 2022	0	2,826,293	286,066	79,862	3,192,221
Increases		108,470	18,240	5,227	131,937
Decreases					-
Balance, December 31, 2023	<u>0</u>	<u>2,934,763</u>	<u>304,306</u>	<u>85,089</u>	<u>3,324,158</u>
Capital assets - net	<u>\$ 66,220</u>	<u>\$ 201,409</u>	<u>\$ 20,103</u>	<u>\$ 21,639</u>	<u>\$ 309,371</u>

Depreciation expense was \$131,937 for the twelve months ended December 31, 2023.

Infrastructure (GASB 34)

Under the transition provisions of GASB 34, the City is not required to retroactively report major general infrastructure assets. There were infrastructure additions to the water and wastewater system for the year ended December 31, 2023.

Intangible Assets

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTODIAL CREDIT RISK:

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

	<u>Carrying Amount</u>
Insured (FDIC) or collateralized	\$718,932
Uninsured	<u>-</u>
Total Deposits	<u>\$718,932</u>

CREDIT RISK:

The Fund has no formal policy on credit risk. The Fund has relied on the depository institutions to provide sufficient collateralization. The under insured amounts collateralized at December 31, 2023 were covered by bonds held by Arkansas Bankers Bank. The credit ratings on those bonds were MOODY Aa2 and AA+

NOTE 2: FUND REQUIREMENTS

Meter deposits are refundable customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposits totaled \$20,775, with reserve funds of \$22,396 at December 31, 2023, a total of \$1,621 more than the requirement.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023
DID NOT USE FOR 2023

NOTE 3: LONG-TERM DEBT

Business-type activities:	<u>Balance at 12-31-2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 12-31-2023</u>	<u>Due within One Year</u>
<u>Bonds</u>					
ADFA bond bearing interest at 2.25%, with semi-annual payments of \$29,066, secured by plant expansion.	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Direct Borrowing</u>					
Note from direct borrowing, bearing interest at 3.47%, with monthly payments of \$1,237, secured by equipment.	-	-	-	-	-
Total business-type activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total long-term debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Current maturities on long-term debt at December 31, 2023, are as follows:

<u>Year Ending December 31,</u>	<u>Business-type Activities</u>			
	<u>Bonds</u>		<u>Notes from Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ -	\$ -	\$ -	\$ -
2025	-	-	-	-
2026	-	-	-	-
2027	-	-	-	-
2028	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 4: JOINT VENTURE

The City of Cotter operates a wastewater treatment facility and a sewer line maintenance crew as a joint venture with the City of Gassville, Arkansas. Each city bears its share of operating revenues and debt expense in relation to its usage of the facility. These expenses are shown on the respective financial statements of each city. Each city also recognizes the assets and any liabilities on their respective financial statements. The books and records for operation are maintained at the City of Cotter office. Each City's financial statements have been adjusted to reflect total cost of the project as a capitalized asset has it's own ADFA loan as long-term debt. The City's share of year end cash balances and capital reserve savings respectively are treatment plant \$4,047 and \$11,912, line crew \$2,084 and \$6,135.

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

The City of Cotter is part of a joint venture with the City of Gassville. The Cities joined with each other to complete what is known as the Ductile Iron Project. This project accomplished a major repair to the sewer system operated jointly by both cities. The joint venture obtained a grant from the Arkansas Natural Resource Commission of \$123,600 and a loan of \$69,010 (Cotter \$24,153, Gassville \$44,857) to complete the renovation. Each city is repaying its share of the loan at 2.75% interest over 10 years. In addition each city is required to be setting aside 6% of sewer fees annually until a reserve of \$50,000 is acquired and held in an account. As of December 31, 2023 the Cotter portion of the joint reserve account had a balance of \$17,342.

The City of Cotter is part of another joint venture with the City of Gassville. The Cities joined with each other to complete Phase II of the Ductile Iron Project. Each city will repay its share of a \$1.551 million loan with interest at 1.75% over 40 years. Each city is setting required reserves to short lived asset accounts and debt reserve accounts. The City shows of those balances at year ended were \$1,348 and \$900, respectively. The first draw on the construction loan was \$196,231.

NOTE 5: NET ASSETS RESERVATION

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

Restricted cash account	\$ 529,815
Meter deposit liability	<u>(20,775)</u>
Net assets - reserved	<u>\$ 509,040</u>

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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

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

Plan description:

The Arkansas Public Employees Retirement System (APERS) is a cost-sharing, multiple employer, defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957, to provide retirement benefits for eligible employees and elected officials of state and local government entities in Arkansas. The laws governing operations of APERS are set forth in Arkansas Code Annotated as Amended, Title 24, Chapters 4, with related laws in Chapter 2 and Chapter 7. APERS covers all state employees who are not covered by another authorized plan, all county employees, municipal employees whose municipalities have elected coverage under the System, college and university employees, certain non-teaching school employees, and other public entities specifically identified by law.

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

Benefits:

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

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

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

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

Funding policy:

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

The City of Cotter Municipal Water and Wastewater Fund's total required contribution for the year ended December 31, 2023, was \$20,784 and included an allowable purchase for the years of service prior to Cotter's enrollment in the System in 1995. The required contributions for the year have been made.

Funding status and progress:

Per the most current APERS audit report, the excess of the accrued liability of the System over the actuarial value of assets, as adjusted to fair value based on the Entry Age Normal Cost Method, was \$2.43 [dollars in billions] at June 30, 2023. Total actuarial accrued liabilities were \$13.07 [dollars in billions], and total applicable assets at smoothed market related value were \$10.64 [dollars in billions], at June 30, 2023. APERS does not conduct separate measurements for the separate divisions or employers of the System.

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 7: CITY OFFICIALS

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

McGeorge Caradine	Mayor	December 31, 2023
Andrea Kray	Recorder/Treasurer	December 31, 2023
Carolyn Gill	Ward 1-1	December 31, 2023
Mark Johnson	Ward 1-2	December 31, 2023 Resigned
Sheila Wingard	Ward 1-2	December 31, 2023
Charles Sugg	Ward 2-1	December 31, 2023
Linda McCarthy	Ward 2-2	December 31, 2023
Mertice Kray	Ward 3-1	December 31, 2023
Cameron Ross	Ward 3-2	December 31, 2023 Resigned
Nicole Hatchet	Ward 3-2	December 31, 2023 Resigned

NOTE 8: INSURANCE COVERAGE

Insurance coverage for the year ended December 31, 2023, is as follows:

<u>Facility</u>	<u>Insurer</u>	<u>Policy Date</u>	<u>Coverage</u>
Buildings and contents, tanks, and pumps	Arkansas Municipal League	11/4/2023 - 11/4/2023	\$410,069
Vehicles and backhoe	Arkansas Municipal League	11/4/2023 - 11/4/2023	\$104,493

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023

NOTE 9: SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated by management through May 22, 2024. This is the first date the financial statements were available for issuance.

NOTE 10: SUMMARY OF ASSETS WHOSE USE IS LIMITED

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

	<u>Cash</u>	<u>Certificates of deposits</u>	<u>TOTAL 2023</u>
Meter deposit fund	\$ 22,396	\$ -	\$ 22,396
Waterline replacement	178,700	-	178,700
Capital improvement fund	-	123,221	123,221
Water Improvements	-	19,111	19,111
Water 605 reserve	4,029	-	4,029
Sewer 605 reserve	10,358	-	10,358
	<u>\$ 215,483</u>	<u>\$ 142,332</u>	<u>\$ 357,815</u>

SUPPLEMENTARY INFORMATION

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

WATER BUDGET

<u>ACCOUNT</u>	<u>Actual</u>	<u>%</u>	<u>Final</u> <u>Budget</u>	<u>%</u>	<u>Variance</u> <u>over</u> <u>(under)</u>	<u>Original</u> <u>Budget</u>
<u>Income</u>						
Water sales	\$ 331,703	55.90%	\$ 213,245	46.70%	\$ 118,458	\$ 213,245
Sewer fees	135,826	22.89%	138,790	30.40%	(2,964)	138,790
Service fees	1,326	0.22%	640	0.14%	686	640
SDWA fees	2,197	0.37%	2,189	0.48%	8	2,189
Sanitation fees	62,810	10.58%	60,588	13.27%	2,222	60,588
Sales tax	37,776	6.37%	26,699	5.85%	11,077	26,699
Penalties/late fees	5,614	0.95%	4,900	1.07%	714	4,900
New meter taps	4,950	0.83%	3,750	0.82%	1,200	3,750
Interest	-	0.00%	-	0.00%	-	-
Fees & permits	3,172	0.53%	5,800	1.27%	(2,628)	5,800
Miscellaneous income	1,325	0.22%	-	0.00%	1,325	-
Transfers	6,713	1.13%	-	0.00%	6,713	-
Total income	<u>\$ 593,412</u>	100.00%	<u>\$ 456,601</u>	100.00%	<u>\$ 130,099</u>	<u>\$ 456,601</u>
<u>Expenses</u>						
Advertising	\$ -	0.00%	\$ 250	0.04%	\$ (250)	\$ 250
Audit fees	6,500	0.97%	6,500	0.95%	-	6,500
Bad debts	-	0.00%	-	0.00%	-	-
Bank fees	276	0.04%	276	0.04%	-	276
Chemical expense	4,025	0.60%	1,800	0.26%	2,225	1,800
Clothing allowance	1,038	0.16%	1,800	0.26%	(762)	1,800
Miscellaneous	(1,371)	-0.21%	-	0.00%	(1,371)	-
Dues, subscriptions & memberships	5,358	0.80%	7,755	1.13%	(2,397)	7,755
Election cost	-	0.00%	-	0.00%	-	-
Fire hydrants	14,815	2.22%	14,500	2.12%	315	14,500
Fuel & Oil	4,861	0.73%	3,375	0.49%	1,486	3,375
Insurance-property & vehicle	2,171	0.32%	1,725	0.25%	446	1,725
Lift station	2,025	0.30%	2,400	0.35%	(375)	2,400

See note to Required Supplementary Information on page 28.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

WATER BUDGET (CONTINUED)

Meeting/training expense	1,326	0.20%	3,200	0.47%	(1,874)	3,200
Office supplies & postage	4,650	0.70%	4,350	0.64%	300	4,350
Repair & maint-buildings	1,412	0.21%	4,660	0.68%	(3,248)	4,660
Repair & maint-equipment	37,408	5.59%	35,572	5.20%	1,836	35,572
Repair & maint-vehicles	430	0.06%	2,200	0.32%	(1,770)	2,200
Salaries	86,542	12.94%	97,013	14.17%	(10,471)	97,013
Salaries-officers	49,331	7.38%	39,668	5.80%	9,663	39,668
Benefits-APERS	20,784	3.11%	19,731	2.88%	1,053	19,731
Benefits-insurance	14,179	2.12%	12,285	1.79%	1,894	12,285
Payroll taxes-medicare	1,853	0.28%	1,982	0.29%	(129)	1,982
Payroll tax-social security	7,923	1.18%	8,474	1.24%	(551)	8,474
Benefits-unemployment	79	0.01%	96	0.01%	(17)	96
Benefits-worker's comp	2,114	0.32%	1,516	0.22%	598	1,516
Sanitation fees	60,311	9.02%	60,588	8.85%	(277)	60,588
SDWA	2,225	0.33%	2,189	0.32%	36	2,189
Sales tax	35,442	5.30%	26,165	3.82%	9,277	26,165
Street repairs	1,012	0.15%	1,000	0.15%	12	1,000
Supplies-inventory parts	16,580	2.48%	13,200	1.93%	3,380	13,200
Supplies-maintenance	184	0.03%	400	0.06%	(216)	400
Supplies-shop tools	2,760	0.41%	1,800	0.26%	960	1,800
Telephone/fax/internet	2,728	0.41%	3,350	0.49%	(622)	3,350
Utilities	23,880	3.57%	22,000	3.21%	1,880	22,000
Water purchased	2,214	0.33%	21,000	3.07%	(18,786)	21,000
CSLC Acct #61531	50,624	7.57%	49,168	7.18%	1,456	49,168
CSLC-Ductile Iron Phase II	5,500	0.82%	8,338	1.22%	(2,838)	8,338
Transfers	-	0.00%	-	0.00%	-	-
WWTF Acct #12726	65,686	9.82%	72,944	10.66%	(7,258)	72,944
Depreciation	131,892	19.72%	131,188	19.17%	704	131,188
	<u>131,892</u>		<u>131,188</u>		<u>704</u>	<u>131,188</u>
Total	<u>\$ 668,768</u>	100.00%	<u>\$ 684,458</u>	100.00%	<u>\$ (15,690)</u>	<u>\$ 684,458</u>

See note to Required Supplementary Information on page 28.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

WATER AND WASTEWATER RATES

DECMEBER 31, 2023

In 2009, the City of Cotter, Arkansas, passed ordinance 2009-10 & 2009-11. This ordinance revised the water rate structure as follows below. In 2019, the City of Cotter, Arkansas, passed ordinance 2019-02 which revised the wastewater rate structure as follows below. These rates were in effect at December 31, 2023.

The rate structure in use at December 31, 2023, is as follows:

Water Rate Schedule

<u>District 1</u>	<u>Flat rate and per thousand gallons</u>
1,000 gallons - minimum	\$ 18.84 flat rate
2,000 gallons	32.92 rate
4,000 gallons	61.08 rate
5,000 gallons	75.16 rate
10,000 gallons	145.56 M
15,000 gallons	215.96 M
20,000 gallons	286.36 M
30,000 gallons	427.16 M
40,000 gallons	567.96 M

Wastewater Rate Schedule

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

USERS BY CLASS

DECEMBER 31, 2023

Customer category (usage in gallons)	Customer Count			
	Water Only	Wastewater Only	Water and Wastewater	Total
< 2,000	8	1	26	35
2,000 - 50,000	15	0	334	349
> 50,000	8	0	101	109
	31	1	461	493

ADDITIONAL INFORMATION

Water loss figures for the year ended December 31, 2023 are as follows:

	2023
Gallons of water billed	22,530,400
Gallons of water pumped	32,612,000
Gallons of water lost	10,081,600

Note: Required Supplementary Information - Budget Reconciliation

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

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

<u>Expenditures</u>	<u>Water</u>
Legal budget	\$ 684,458
Capital expense & Depreciation	(131,892)
GAAP	\$ 552,566

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Cotter Municipal Water and Wastewater Fund which comprise the statement of financial position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net fund position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated May 22, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Cotter Municipal Water and Wastewater Fund's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

Purpose of this Report

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



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

May 22, 2024

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2023

SUMMARY OF AUDIT RESULTS

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

FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES:

1. Segregation of duties:

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

YEAR ENDED DECEMBER 31, 2023

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

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