

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

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

December 31, 2022 and 2021

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

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Welch, Couch & Company, PA

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October 3, 2023

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the City Council
City of Mountain View, Arkansas

Opinions

We have audited the accompanying financial statements of the business-type activities of the City of Mountain View, Arkansas Water and Wastewater Department, a proprietary fund of the City of Mountain View, Arkansas as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise City of Mountain View, Arkansas Water and Wastewater 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 City of Mountain View, Arkansas Water and Wastewater Department, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Mountain View, Arkansas Water and Wastewater 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 opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Mountain View Water and Wastewater 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 Mountain View, Arkansas that is attributable to the transactions of the Water and Wastewater Department. They do not purport to, and do not, present fairly the financial position of the City of Mountain View, Arkansas, as of December 31, 2022 and 2021, the changes in 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 City of Mountain View, Arkansas Water and Wastewater 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 opinions. 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 judgement 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 judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Mountain View, Arkansas Water and Wastewater 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mountain View, Arkansas Water and Wastewater 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements and 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. Our opinion of the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the historical pension information on pages 24 and 25 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mountain View, Arkansas Water and Wastewater Department's basic financial statements. The accompanying supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023, on our consideration of the City of Mountain View, Arkansas Water and Wastewater 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mountain View, Arkansas Water and Wastewater Department's internal control over financial report or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mountain View, Arkansas Water and Wastewater Department 's internal control over financial reporting and compliance.

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

Batesville, Arkansas
October 3, 2023

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Statements of Net Position

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current assets		
Cash and cash equivalents - Note 3	\$ 387,552	\$ 490,825
Accounts receivable, net of allowance - Note 2	149,173	122,119
Interfund receivables - Note 6	1,390	1,219
Inventories	63,254	39,398
Prepaid expenses	37,177	31,738
Total current assets	<u>638,546</u>	<u>685,299</u>
Restricted assets		
Customer meter deposit funds - Note 4	162,982	157,949
Capital replacement and repair funds	367,813	303,204
Total restricted assets	<u>530,795</u>	<u>461,153</u>
Capital assets - Note 5		
Nondepreciable assets	752,877	427,859
Depreciable assets, net of accumulated depreciation	9,003,624	9,629,953
Total capital assets	<u>9,756,501</u>	<u>10,057,812</u>
Deferred outflows of resources		
Deferred pension outflows - Note 10	<u>215,788</u>	<u>58,466</u>
Total assets and deferred outflows of resources	<u><u>\$ 11,141,630</u></u>	<u><u>\$ 11,262,730</u></u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Statements of Net Position

December 31, 2022 and 2021

<u>Liabilities, Deferred Inflows of Resources and Net Position</u>	<u>2022</u>	<u>2021</u>
Current liabilities - payable from current assets		
Accounts payable	\$ 9,631	\$ 12,310
Interfund payables - Note 6	22,342	19,964
Sales tax payable	5,748	5,170
Accrued payroll and related liabilities	19,531	27,365
Total current liabilities	<u>57,252</u>	<u>64,809</u>
Current liabilities - payable from restricted assets		
Meter deposits	<u>156,687</u>	<u>151,489</u>
Non-current liabilities		
Net pension obligation - Note 10	<u>604,081</u>	<u>159,488</u>
Total liabilities	<u>818,020</u>	<u>375,786</u>
Deferred inflows of resources		
Deferred pension inflows - Note 10	<u>11,660</u>	<u>300,351</u>
Net position		
Net investment in capital assets	9,756,501	10,057,812
Restricted	530,795	461,153
Unrestricted	24,654	67,628
Total net position	<u>10,311,950</u>	<u>10,586,593</u>
Total liabilities, deferred inflows and net position	<u>\$ 11,141,630</u>	<u>\$ 11,262,730</u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water sales	\$ 907,462	\$ 843,889
Wastewater user fees	317,037	292,122
Sanitation fees	416,969	385,138
Penalties	25,418	23,758
Tie-on and reconnect fees	32,435	25,765
Sales tax revenues	119,405	109,322
Billing fees	23,416	20,562
Miscellaneous	14,198	8,995
Total operating revenues	<u>1,856,340</u>	<u>1,709,551</u>
Operating expenses		
Analysis and monitoring	7,878	5,848
Bank charges	2,286	1,933
Contract services	44,005	68,628
Custodian services	5,693	5,527
Depreciation	674,958	670,558
Bad debt	7,160	2,514
Education, travel and mileage	4,586	3,979
Insurance	36,083	38,848
Miscellaneous	8,317	4,640
Payroll taxes and employee benefits	92,966	99,141
Permits and fees	24,443	24,023
Postage, printing, office expense	38,241	49,109
Repairs and maintenance	2,535	378
Retirement expense	71,087	(12,966)
Salaries	406,520	391,053
Sales tax	116,148	107,639
Sanitation fee remittance	379,692	364,289
Supplies and materials	99,181	126,203
Telephone and utilities	90,296	65,226
Vehicle and equipment expense	39,222	34,526
Water purchases	319,132	302,983
Total Operating expenses	<u>2,470,429</u>	<u>2,354,079</u>
Operating (loss)	<u>(614,089)</u>	<u>(644,528)</u>
Nonoperating revenues		
Interest income	2,549	2,703
Total nonoperating revenues	<u>2,549</u>	<u>2,703</u>
(Loss) before transfers and capital contributions	<u>(611,540)</u>	<u>(641,825)</u>
Transfers from other funds	11,879	150,020
Capital contributions	<u>325,018</u>	<u>331,867</u>
Changes in net position	(274,643)	(159,938)
Net position - beginning of year	<u>10,586,593</u>	<u>10,746,531</u>
Net position - end of year	<u>\$ 10,311,950</u>	<u>\$ 10,586,593</u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,807,757	\$ 1,692,557
Cash payments to and/or for employees	(414,354)	(402,703)
Cash payments to suppliers for goods and services	(252,456)	(162,379)
Other cash receipts (payments)	<u>(1,140,377)</u>	<u>(1,203,675)</u>
Net cash provided by (used in) operating activities	<u>570</u>	<u>(76,200)</u>
Cash flows from non-capital financing activities:		
Cash transfer from other funds	<u>11,879</u>	<u>150,020</u>
Net cash provided by non-capital financial activities	<u>11,879</u>	<u>150,020</u>
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	<u>(48,629)</u>	<u>(203,584)</u>
Net cash (used in) capital and related financing activities	<u>(48,629)</u>	<u>(203,584)</u>
Cash flows from investing activities:		
Interest income	<u>2,549</u>	<u>2,703</u>
Net cash provided by investing activities	<u>2,549</u>	<u>2,703</u>
Net (decrease) in cash and cash equivalents	(33,631)	(127,061)
Cash and cash equivalents - beginning of year	<u>951,978</u>	<u>1,079,039</u>
Cash and cash equivalents - end of year	<u>\$ 918,347</u>	<u>\$ 951,978</u>
Reconciliation of total cash and cash equivalents to the balance sheet:		
Current assets - cash and cash equivalents	\$ 387,552	\$ 490,825
Restricted assets - cash and cash equivalents	<u>530,795</u>	<u>461,153</u>
Total cash and cash equivalents	<u>\$ 918,347</u>	<u>\$ 951,978</u>
Non-cash transactions		
Capital contributions	\$ 325,018	\$ 331,867

(Continued)

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Statements of Cash Flows (Cont.)
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Reconciliation of operating (loss) to net cash provided by (used in) operating activities:		
Operating (loss)	\$ (614,089)	\$ (644,528)
Adjustments to reconcile operating (loss) to net cash flows provided by (used in) operating activities:		
Depreciation	674,958	670,558
Provision for bad debt	7,160	2,514
Net changes in:		
Accounts receivable	(34,385)	(7,999)
Inventory	(23,856)	6,254
Prepaid expenses	(5,439)	(289)
Deferred outflows of resources	(157,322)	58,367
Accounts payable	277	(8,433)
Accrued expenses	(7,834)	(11,650)
Meter deposit liability	5,198	3,520
Net pension obligation	444,593	(417,179)
Deferred inflows of resources	(288,691)	272,665
	<u>\$ 570</u>	<u>\$ (76,200)</u>
Net cash provided by (used in) operating activities	\$ 570	\$ (76,200)

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

The City of Mountain View, Arkansas, was incorporated on October 10, 1890 and operates under a Mayor-Council form of government. The financial statements of the City of Mountain View, Arkansas' Water and Wastewater Department enterprise fund (the "Department") are prepared in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

The Department operates as an enterprise fund. Enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services on a continuing basis be financed or recovered primarily through user charges.

The financial statements of the Department have been prepared separately from the comprehensive financial statements of the City of Mountain View, and are presented herewith. Totals are presented for financial statement purposes only and do not represent the consolidated information for all of the City of Mountain View, Arkansas.

GAAP has set criteria for evaluating which potential component units to include in the City's comprehensive financial statements. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility; the most significant manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based on the application of these criteria, the financial statements of the Department, separately presented herewith, may be included in the comprehensive financial statements of the City of Mountain View, Arkansas, as of and for the years ended December 31, 2022 and 2021.

Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied. The Department uses the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position. The operating statement then presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses when the liability is incurred or economic asset used.

Operating income reported in the financial statements includes revenues and expenses related to the primary continuing operations of the Department. Principal operating revenues are charges to customers for water, wastewater, and related services. Principal operating expenses include the costs of providing these services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses in the financial statements.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

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

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include bank checking and savings accounts and certificates of deposit with original maturities of three months or less.

Accounts Receivable

The Water and Sewer Department grants credit to its members for water and sewer sales. The collectability of the Department's receivables is dependent upon the residents' ability to honor their obligations for their bills. Accounts receivable are carried on the balance sheet 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 doubtful accounts totaled \$60,526 at December 31, 2022. The Water and Sewer Department had bad debt expense totaling \$7,160 for the period ended December 31, 2022.

Inventories

Inventories held by the Department are valued at the lower of cost or net realizable value by the first-in-first-out (FIFO) method.

Restricted Assets

These assets consist of cash and certificates of deposit restricted by the City Council for specific uses.

Prepaid Items

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

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT

Notes to Financial Statements

December 31, 2022 and 2021

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

Capital Assets

Capital assets costing more than \$1,000 and that have useful lives of more than one year are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to forty years, of the various assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized but are charged against earnings when incurred.

Estimated useful lives are as follows:

System and improvements	10 – 40 years
Vehicles, machinery and equipment	5 – 10 years
Furniture and fixtures	5 – 10 years

Accounts Payable

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

Sales Tax Payable

Sales tax payable consists of prior month's sales tax collected.

Accrued Expenses

Accrued expenses consist primarily of accrued payroll tax and related liabilities.

Meter Deposits

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

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.

Net Pension Obligation

Net pension obligations represent the unfunded benefit obligation based on the market value of the assets and projected benefits obligations of the pension plan that the employer participates.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

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

Restricted Resources

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

Grants and Contributions

From time to time, the Department receives grants and contributions from federal and state governments, individuals, and private organizations. Revenues 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 revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

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 are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Department, such as permanent endowments.

Unrestricted net position – this component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets" as defined above.

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These reclassifications had no effect on net earnings as previously reported.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 2 – Significant Concentration of Trade Accounts Receivable

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. The Department grants unsecured credit to its customers, subject to a meter deposit.

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 209,699	\$ 175,484
Allowance for doubtful accounts	<u>(60,526)</u>	<u>(53,365)</u>
 Accounts receivable, net of allowance for doubtful accounts	 <u>\$ 149,173</u>	 <u>\$ 122,119</u>

Note 3 – Significant Concentration of Credit Risk

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 Department's deposit policy for custodial credit risk requires compliance with the provision of state law. At December 31, 2022, the Department's carrying amount of deposits was \$918,347. The bank balance of \$951,703 was fully covered by Federal Depository Insurance and pledged collateral held by the pledging financial institution in the Department's name.

Interest rate risk – The 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 Department does not have a formal policy that limits exposure to credit risk.

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 3 – Significant Concentration of Credit Risk (Cont.)

The carrying amounts of deposits are included in the Department's balance sheets as follows:

	<u>2022</u>	<u>2021</u>
Deposits	\$ 918,347	\$ 951,978
Total	\$ 918,347	\$ 951,978
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 387,552	\$ 490,825
Noncurrent cash and cash equivalents	530,795	461,153
Total	\$ 918,347	\$ 951,978

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2021 and 2020:

	<u>2022</u>	<u>2021</u>
Interest income	\$ 2,549	\$ 2,703

Note 4 – Fund Requirements

Meter deposits are customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposit reserves at December 31, 2022 were \$162,982, a surplus of \$6,295 from the total customer deposits of \$156,687. Meter deposit reserves at December 31, 2021 were \$157,949 a surplus of \$6,460 from the total customer deposits of \$151,489.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation

Capital asset additions, retirements and balances for the years ended December 31, 2022 and 2021 were as follows:

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer Between Funds/ Reclass</u>	<u>Balance 12/31/2022</u>
Capital assets not being depreciated:					
Land and land rights	\$ 5,678	\$ -	\$ -	\$ -	\$ 5,678
Construction in progress	422,181	325,018	-	-	747,199
Total capital assets not being depreciated	<u>427,859</u>	<u>325,018</u>	<u>-</u>	<u>-</u>	<u>752,877</u>
Capital assets being depreciated:					
System and improvements	19,215,965	-	-	-	19,215,965
Equipment	475,954	23,512	-	-	499,466
Vehicles	260,483	25,117	-	-	285,600
Furniture and fixtures	46,576	-	-	-	46,576
Total capital assets being depreciated	<u>19,998,978</u>	<u>48,629</u>	<u>-</u>	<u>-</u>	<u>20,047,607</u>
Less accumulated depreciation for:					
System and improvements	(9,684,844)	(648,884)	-	-	(10,333,728)
Equipment	(439,171)	(13,157)	-	-	(452,328)
Vehicles	(201,357)	(12,606)	-	-	(213,963)
Furniture and fixtures	(43,653)	(311)	-	-	(43,964)
Total accumulated depreciation	<u>(10,369,025)</u>	<u>(674,958)</u>	<u>-</u>	<u>-</u>	<u>(11,043,983)</u>
Total capital assets being depreciated, net	<u>9,629,953</u>	<u>(626,329)</u>	<u>-</u>	<u>-</u>	<u>9,003,624</u>
Capital assets, net	<u>\$ 10,057,812</u>	<u>\$ (301,311)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,756,501</u>

During 2022, depreciation expense was charged to the Departments as follows:

Water Department	\$ 262,571
Wastewater Department	395,595
Joint - Water and Wastewater Department	16,792
	<u>\$ 674,958</u>

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation (Cont.)

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u> <u>Between</u> <u>Funds/</u> <u>Reclass</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets not being depreciated:					
Land and land rights	\$ 5,678	\$ -	\$ -	\$ -	\$ 5,678
Construction in progress	90,314	331,867	-	-	422,181
Total capital assets not being depreciated	<u>95,992</u>	<u>331,867</u>	<u>-</u>	<u>-</u>	<u>427,859</u>
Capital assets being depreciated:					
System and improvements	19,078,136	137,829	-	-	19,215,965
Equipment	463,710	12,244	-	-	475,954
Vehicles	206,972	53,511	-	-	260,483
Furniture and fixtures	46,576	-	-	-	46,576
Total capital assets being depreciated	<u>19,795,394</u>	<u>203,584</u>	<u>-</u>	<u>-</u>	<u>19,998,978</u>
Less accumulated depreciation for:					
System and improvements	(9,040,689)	(644,155)	-	-	(9,684,844)
Equipment	(422,614)	(16,557)	-	-	(439,171)
Vehicles	(191,822)	(9,535)	-	-	(201,357)
Furniture and fixtures	(43,342)	(311)	-	-	(43,653)
Total accumulated depreciation	<u>(9,698,467)</u>	<u>(670,558)</u>	<u>-</u>	<u>-</u>	<u>(10,369,025)</u>
Total capital assets being depreciated, net	<u>10,096,927</u>	<u>(466,974)</u>	<u>-</u>	<u>-</u>	<u>9,629,953</u>
Capital assets, net	<u>\$ 10,192,919</u>	<u>\$ (135,107)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,057,812</u>

During 2021, depreciation expense was charged to the Departments as follows:

Water Department	\$ 257,693
Wastewater Department	401,846
Joint - Water and Wastewater Department	<u>11,019</u>
	<u>\$ 670,558</u>

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 6 – Interfund Balances

Interfund receivables as of December 31, 2022 and 2021 consisted of the amounts due from the City of Mountain View's Water Treatment Plant for water utilized at the water plant.

Interfund payables as of December 31, 2022 and 2021 consisted of the amounts due to the City's Water Treatment Plant and Street fund for water purchased for distribution and vehicle fuel, respectively.

Both the interfund receivable and payable balances are classified as current assets and liabilities, respectively, as the amounts are expected to be collected/paid within one year.

Note 7 – Capital Contributions and Transfers From Other Funds

The Series 2020 sales and use tax refunding and improvement bonds were issued for the purpose of refunding the 2014 bond issue and for improvements to the City's wastewater system. During the years ended December 31, 2022 and 2021, capital improvements to the City's water and wastewater department were recorded on the Department's books in the amount of \$325,018 and \$331,867, respectively.

Additionally, during the year ended December 31, 2022 and 2021, certain reimbursements, totaling \$0 and \$43,059 respectively, were received from the City's sewer improvement funds and recorded in transfers from other funds. During the year ended December 31, 2021 reimbursements in the amount of \$95,164 was received from the City's American Rescue Plan Act funding. In addition, the Treatment Plant transferred to the Water and Wastewater Department \$11,879 and \$11,797 for payment to APERS during years ended December 31, 2022 and 2021, respectively.

Note 8 – Insurance Coverage

The City of Mountain View Water and Wastewater Department has purchased commercial insurance coverage to cover potential losses due to the various risks related to the damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Department had no claims in excess of insurance in the past three years. Further, there were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

Note 9 – Water and Wastewater Governing Body

Certain regulatory agencies and creditors require that members of the governing board be presented. Members of the Mountain View City Council for the years ending December 31, 2022 and 2021 are as follows:

2022

J. K. Williams
Truman Bullard
Dana Woods
Danny Simmons
Wayne "Ricky" Shuttleworth
Finis Brewer

2021

J. K. Williams
Truman Bullard
Dana Woods
Danny Simmons
Wayne "Ricky" Shuttleworth
Finis Brewer

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 10 – Retirement Plan – APERS

The 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, One Union National Plaza, 124 W. Capitol, 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 nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

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 3-year average compensation 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 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

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. 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)).

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 10 – Retirement Plan – APERS (Cont.)

Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2022. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

The Department's contributions to APERS for the years ending December 31, 2022 and 2021, was \$71,743 and \$63,461, respectively, equal to the required contribution for the year.

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, 2022 and 2021, the Department reported a liability of \$604,081 and \$159,488, respectively, for its proportionate share of the net pension liability.

The collective net pension liability was measured as of June 30, 2022 and 2021, 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 June 30, 2022 and 2021, the Department's proportion was 0.0224% and 0.0207%, respectively.

For the years ended December 31, 2022 and 2021, the Department recognized pension expense of 71,087 and \$(12,966), respectively. At December 31, 2022 and 2021, the Department's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 10 – Retirement Plan – APERS (Cont.)

	<u>Deferred Outflows</u>		<u>Deferred Inflows</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Difference between expected and actual experience	\$ 14,500	\$ 3,650	\$ (7,293)	\$ (10,229)
Net difference between projected and actual investment earnings on pension plan investments	127,432	-	-	(279,956)
Changes of assumptions	-	-	-	(1,117)
Changes in proportion and differences between employer contributions and share of contributions	34,577	16,301	(4,367)	(9,049)
Contribution subsequent to the measurement date	<u>39,279</u>	<u>38,515</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 215,788</u>	<u>\$ 58,466</u>	<u>\$ (11,660)</u>	<u>\$ (300,351)</u>

\$39,279 reported as deferred outflows of resources related to pensions resulting from the 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	<u>Amount</u>
2023	35,804
2024	31,564
2025	8,611
2026	<u>88870</u>
Total	<u>\$ 164,849</u>

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 10 – Retirement Plan – APERS (Cont.)

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return*	7.15%
Salary Increases	3.25% – 9.85%
Inflation Rate	3.25%
Discount Rate	7.15%
Mortality Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

* Net of investment and administrative expenses

All other actuarial assumptions used in the June 30, 2022, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2017, and were applied to all prior periods included in the measurement.

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.22%
International equity	24%	6.69%
Real assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	<u>18%</u>	0.57%
Total	<u>100%</u>	

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 10 – Retirement Plan – APERS (Cont.)

Discount Rate

A single discount rate of 7.15% 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 7.15%. 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 benefit 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:

	1% Lower 6.15%	Discount Rate 7.15%	1% Higher 8.15%
Net pension liability	<u>\$ 960,378</u>	<u>\$ 604,081</u>	<u>\$ 309,926</u>

Note 11 – Subsequent Events

Management has evaluated subsequent events through October 3, 2022, 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.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Schedule of Department's Proportionate Share of
The Net Pension Liability**

	December 31, <u>2022</u>	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>	December 31, <u>2016</u>
Water Department's proportion of the net pension liability (asset)	0.0224%	0.0207%	0.0201%	0.0209%	0.0200%	0.0209%	0.0189%
Water Department's proportionate share of the net pension liability (asset)	\$ 604,081	\$ 159,488	\$ 576,667	\$ 503,285	\$ 442,276	\$ 539,875	\$ 453,135
Water Department's covered-employee payroll	\$ 468,296	\$ 414,236	\$ 392,924	\$ 399,210	\$ 375,546	\$ 376,538	\$ 343,324
Water Department's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.00%	38.50%	146.76%	126.07%	117.77%	143.38%	131.98%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	80.39%

Ten years worth of data will be presented as it is available. Actuarial assumptions and disclosures can be found in Note 10 of the financial statements.

Information as scheduled above has been determined as of measurement date June 30, 2022

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

Schedule of Department Contributions

	December 31, <u>2022</u>	December 31, <u>2021</u>	December 31, <u>2020</u>	December 31, <u>2019</u>	December 31, <u>2018</u>	December 31, <u>2017</u>	December 31, <u>2016</u>
Contractually required contributions	\$ 71,743	\$ 63,461	\$ 60,196	\$ 61,159	\$ 55,393	\$ 54,598	\$ 49,782
Contributions in relation to the contractually required contribution	<u>(71,743)</u>	<u>(63,461)</u>	<u>(60,196)</u>	<u>(61,159)</u>	<u>(55,393)</u>	<u>(54,598)</u>	<u>(49,782)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Water Department's covered-employee payroll	\$ 468,296	\$ 414,236	\$ 392,924	\$ 399,210	\$ 375,546	\$ 376,538	\$ 343,324
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%

*Ten years worth of data will be presented as it is available.
Information as scheduled above has been determined as of measurement date June 30, 2022*

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Supplemental Schedules of Water Rates
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<u>Water Rate Schedule</u>		
<i>Within City Limits</i>		
First 1,000 gallons	\$8.15 minimum	\$7.95 minimum
Next 3,000 gallons	\$3.84 per 1,000 gallons	\$3.75 per 1,000 gallons
Next 4,000 gallons	\$3.59 per 1,000 gallons	\$3.50 per 1,000 gallons
All over excess of 8,000 gallons	\$3.23 per 1,000 gallons	\$3.15 per 1,000 gallons
 <i>Outside City Limits</i>		
First 1,000 gallons	\$12.23 minimum	\$11.60 minimum
Next 3,000 gallons	\$5.76 per 1,000 gallons	\$5.30 per 1,000 gallons
Next 4,000 gallons	\$5.39 per 1,000 gallons	\$4.93 per 1,000 gallons
All over excess of 8,000 gallons	\$4.85 per 1,000 gallons	\$4.40 per 1,000 gallons
 <i>Herpel Road Extension</i>		
First 1,000 gallons	\$20.04 minimum	\$19.55 minimum
All over excess of 1,000 gallons	\$6.71 per 1,000 gallons	\$6.55 per 1,000 gallons
 <i>Highway 87 Extension</i>		
First 1,000 gallons	\$19.37 minimum	\$18.90 minimum
All over excess of 1,000 gallons	\$6.05 per 1,000 gallons	\$5.90 per 1,000 gallons
 <u>Wastewater Rate Schedule</u>		
First 1,000 gallons of water used	\$10.55 minimum	\$10.00 minimum
All over 1,000 gallons	\$1.95 per 1,000 gallons	\$1.85 per 1,000 gallons

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
Supplemental Schedule of Users and Consumption
For the Year Ended December 31, 2022

<u>Month</u>	<u>Gallons Sold</u>	<u>Water Users</u>
January	12,569,000	3003
February	12,462,800	3004
March	11,144,400	3018
April	12,456,300	3032
May	11,690,800	3034
June	13,328,500	3035
July	18,027,400	3046
August	18,667,400	3051
September	14,211,800	3052
October	16,072,400	3059
November	12,299,200	3039
December	11,516,200	3029
Total consumption	164,446,200	
Monthly averages	13,703,850	3,034

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT**

**Supplemental Schedule of Users and Consumption
For the Year Ended December 31, 2021**

<u>Month</u>	<u>Gallons Sold</u>	<u>Water Users</u>
January	10,659,900	2962
February	16,108,300	2967
March	7,714,000	2967
April	11,499,400	2999
May	14,012,100	2994
June	13,059,800	3001
July	15,969,800	3012
August	16,762,900	3007
September	15,114,700	3012
October	12,930,200	3008
November	13,192,900	3010
December	10,507,300	2999
Total consumption	<u>157,531,300</u>	
Monthly averages	<u>13,127,608</u>	<u>2,995</u>



Welch, Couch & Company, PA
Certified Public Accountants

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Members of American Institute of Certified Public Accountants

**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 Mayor and Members of the City Council
City of Mountain View, Arkansas

We have audited 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 Water and Wastewater Department of the City of Mountain View, Arkansas, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 3, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Mountain View, Arkansas Water and Wastewater 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as item #2022-01, that we consider to be a significant deficiency in internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mountain View, Arkansas Water and Wastewater 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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Mountain View, Arkansas Water and Wastewater Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Mountain View, Arkansas's response to the findings identified in our audit and described in the accompanying schedule of findings and management response. The City of Mountain View, Arkansas'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 result of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Batesville, Arkansas
October 3, 2023

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER AND WASTEWATER DEPARTMENT
Schedule of Findings and Management Responses
For the Year Ended December 31, 2022**

Financial Statement Findings

Significant Deficiencies:

2022-01 – Segregation of Duties

Condition: Due to the limited number of personnel, there is a general lack of segregation of accounting duties. Department personnel have access to or physical custody of assets and perform accounting functions which may not be compatible from a control perspective.

Criteria: Internal controls should be in place to eliminate the incompatible functions of authorization, physical custody of assets and recording of transactions.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Cause: Small number of people responsible for the financial transactions of the Department.

Recommendation: Such activities should be split between employees to the greatest extent possible in order to separate incompatible duties.

Management's Response: The Department will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

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

December 31, 2022 and 2021

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT

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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 <i>Government Auditing Standards</i>	21-22
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Welch, Couch & Company, PA Certified Public Accountants

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October 3, 2023

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the City Council
City of Mountain View, Arkansas

Opinions

We have audited the accompanying financial statements of the business-type activities of the City of Mountain View, Arkansas Water Treatment Plant, a proprietary fund of the City of Mountain View, Arkansas as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise City of Mountain View, Arkansas Water Treatment Plant'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 City of Mountain View, Arkansas Water Treatment Plant, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Mountain View, Arkansas Water Treatment Plant 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 opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Mountain View Water Treatment Plant 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 Mountain View, Arkansas that is attributable to the transactions of the Mountain View Water Treatment Plant. They do not purport to, and do not, present fairly the financial position of the City of Mountain View, Arkansas, as of December 31, 2022 and 2021, the changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State 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 City of Mountain View, Arkansas Water Treatment Plant'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 opinions. 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 judgement 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 judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Mountain View, Arkansas Water Treatment Plant'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mountain View, Arkansas Water Treatment Plant'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

Management has omitted the management's discussion and analysis and budgetary comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion of the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mountain View, Arkansas Water Treatment Plant's basic financial statements. The accompanying supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023, on our consideration of the City of Mountain View, Arkansas Water Treatment Plant'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Mountain View, Arkansas Water Treatment Plant's internal control over financial report or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Mountain View, Arkansas Water Treatment Plant's internal control over financial reporting and compliance.

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

Batesville, Arkansas
October 3, 2023

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Statements of Net Position

December 31, 2022 and 2021

	<u>Assets</u>	
	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents - Note 1 & 3	\$ 1,186,380	\$ 997,855
Accounts receivable	51,788	48,678
Grant receivable	-	20,388
Interfund receivables - Note 4	22,342	20,181
Prepaid expenses	9,848	7,411
Total current assets	<u>1,270,358</u>	<u>1,094,513</u>
Restricted assets		
Debt service funds	653	652
Debt and depreciation reserves	424,154	378,263
Total restricted assets	<u>424,807</u>	<u>378,915</u>
Capital assets - Note 5		
Nondepreciable assets	50,259	50,259
Capital assets, net of accumulated depreciation	6,967,929	7,321,764
Total capital assets	<u>7,018,188</u>	<u>7,372,023</u>
Total assets	<u>\$ 8,713,353</u>	<u>\$ 8,845,451</u>
	<u>Liabilities and Net Position</u>	
Current liabilities - payable from current assets		
Accounts payable	\$ 1,339	\$ 6,809
Interfund payables - Note 4	1,390	1,219
Accrued payroll and related liabilities	1,780	1,780
Deferred revenue	9,285	9,285
Total current liabilities	<u>13,794</u>	<u>19,093</u>
Current liabilities - payable from restricted assets		
Accrued interest payable	4,915	5,141
Current maturities notes payable - Note 6	127,680	122,072
Total from restricted assets	<u>132,595</u>	<u>127,213</u>
Long-term liabilities		
Notes payable, less current maturities - Note 6	2,530,025	2,657,716
Total liabilities	<u>2,676,414</u>	<u>2,804,022</u>
Net position		
Net investment in capital assets	4,360,483	4,592,235
Restricted for debt service	424,807	378,915
Unrestricted	1,251,649	1,070,279
Total net position	<u>6,036,939</u>	<u>6,041,429</u>
Total liabilities and net position	<u>\$ 8,713,353</u>	<u>\$ 8,845,451</u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues		
Water sales	\$ 1,025,688	\$ 1,008,896
Penalties	2,534	6,760
Miscellaneous income	498	957
Total operating revenues	<u>1,028,720</u>	<u>1,016,613</u>
Operating expenses		
Chemicals	98,518	75,251
Contract services	24,183	32,771
Depreciation	353,835	381,134
Dues and fees	4,096	3,691
Insurance	20,859	22,662
Office expense	611	5,847
Payroll taxes and employee benefits	22,300	20,672
Repairs and maintenance	1,186	9,122
Retirement expense	12,044	11,797
Salaries and payroll reimbursements	79,617	74,110
Supplies and materials	30,554	17,631
Telephone and utilities	258,376	245,083
Travel and education	821	2,170
Vehicle expense	7,839	7,149
Total Operating expenses	<u>914,839</u>	<u>909,090</u>
Operating income	<u>113,881</u>	<u>107,523</u>
Nonoperating revenues (expenses)		
Interest income	3,990	3,550
Interest expense	(122,361)	(127,733)
Total nonoperating revenues (expenses)	<u>(118,371)</u>	<u>(124,183)</u>
Transfers from other funds		
Capital contributions	-	86,123
Total transfers from other funds	<u>-</u>	<u>86,123</u>
Changes in net position	<u>(4,490)</u>	<u>69,463</u>
Net position - beginning of year	<u>6,041,429</u>	<u>5,971,966</u>
Net position - end of year	<u>\$ 6,036,939</u>	<u>\$ 6,041,429</u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

**Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,043,339	\$ 1,010,933
Cash payments to and/or for employees	(418,290)	(98,679)
Cash payments to suppliers for goods and services	(101,917)	(373,049)
Other cash receipts (payments)	(48,261)	(52,324)
Net cash provided by operating activities	<u>474,871</u>	<u>486,881</u>
Cash flows from capital and related financing activities:		
Cash paid for acquisition and construction of capital assets	-	(24,616)
Principal paid on capital related debt	(122,083)	(116,719)
Interest paid on capital related debt	(122,361)	(127,733)
Net cash (used in) capital and related financing activities	<u>(244,444)</u>	<u>(269,068)</u>
Cash flows from investing activities:		
Interest income	3,990	3,550
Net cash provided by investing activities	<u>3,990</u>	<u>3,550</u>
Net increase in cash and cash equivalents	<u>234,417</u>	<u>221,363</u>
Cash and cash equivalents - beginning of year	<u>1,376,770</u>	<u>1,155,407</u>
Cash and cash equivalents - end of year	<u>\$ 1,611,187</u>	<u>\$ 1,376,770</u>
Reconciliation of total cash and cash equivalents to the balance sheet:		
Current assets - cash and cash equivalents	\$ 1,186,380	\$ 997,855
Restricted assets - cash and cash equivalents	424,807	378,915
Total cash and cash equivalents	<u>\$ 1,611,187</u>	<u>\$ 1,376,770</u>
<u>Supplemental information</u>		
Interest paid	\$ 122,361	\$ 127,733
Noncash transactions:		
Capital Contributions	\$ -	\$ 86,123

(Continued)

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

**Statements of Cash Flows (Cont.)
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 113,881	\$ 107,523
Depreciation expense	353,835	381,134
(Increase) decrease in assets and increase (decrease) in liabilities:		
Receivables	15,118	(4,723)
Prepaid expenses	(2,437)	-
Payables	(5,470)	6,809
Accrued expenses	(56)	(3,862)
	<u> </u>	<u> </u>
Net cash flows provided by operating activities	<u> \$ 474,871</u>	<u> \$ 486,881</u>

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

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

The City of Mountain View, Arkansas, was incorporated on October 10, 1890 and operates under a Mayor-Council form of government. The financial statements of the City of Mountain View, Arkansas' Water Treatment Plant enterprise fund (the "Water Treatment Plant") are prepared in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity

The City of Mountain View, Arkansas' Water Treatment Plant operates as an enterprise fund. Enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services on a continuing basis be financed or recovered primarily through user charges.

The financial statements of the Water Treatment Plant enterprise fund have been prepared separately from the comprehensive financial statements of the City of Mountain View, and are presented herewith. Totals are presented for financial statement purposes only and do not represent the consolidated information for all of the City of Mountain View, Arkansas.

GAAP has set criteria for evaluating which potential component units to include in the City's comprehensive financial statements. The basic, but not only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility; the most significant manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based on the application of these criteria, the financial statements of the Water Treatment Plant, separately presented herewith, may be included in the comprehensive financial statements of the City of Mountain View, Arkansas, as of and for the years ended December 31, 2022 and 2021.

Measurement Focus/Basis of Accounting

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied. The Water Treatment Plant uses the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or non-current) are included on the statement of net position. The operating statement then presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses when the liability is incurred or economic asset used.

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT

Notes to Financial Statements

December 31, 2022 and 2021

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

Measurement Focus/Basis of Accounting (cont.)

Operating income reported in the financial statements includes revenues and expenses related to the primary continuing operations of the Water Treatment Plant. Principal operating revenues are charges to the cities for metered water service. Principal operating expenses are the costs of providing this service and include water pumping, treatment and testing expenses, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting these definitions are reported as nonoperating revenues and expenses in the financial statements.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include bank checking and savings accounts and certificates of deposit with original maturities of three months or less.

Accounts Receivable

Accounts receivable consists of the balances due from the entities using the treated water provided by the City of Mountain View, Arkansas' Water Treatment Plant. These entities are other municipalities and water associations that purchase treated water for resale to their residents.

Management closely monitors outstanding balances and evaluates collectability of its accounts receivable on a per-customer basis. Customer accounts are typically collected within a short period of time, and, based on its assessment of current conditions, management believes realization losses on the amounts outstanding at the end of 2022 and 2021 will be immaterial. Accordingly, the account balance is reported at the full amount outstanding.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

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

Prepaid Items

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

Restricted Assets

These assets consist of cash restricted by bond ordinances and the City Council for debt service and other specific uses.

Capital Assets

Capital assets costing more than \$1,000 and that have useful lives of more than one year are stated at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives ranging from three to forty years, of the various assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extended asset lives are not capitalized but are charged against earnings when incurred.

Estimated useful lives are as follows:

System and improvements	10 – 40 years
Equipment, furniture and fixtures	5 – 10 years
Vehicles	5 years

Accounts Payable

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

Interfund Receivable and Payable

At December 31, 2022 and 2021, interfund receivable and payables consisted of amounts due to/from the City of Mountain View's Water and Wastewater Department.

Accrued Interest Payable

Accrued interest payable consists of interest due to United States Department of Agriculture on notes payable due December 31, 2022 and 2021.

Accrued expenses

Accrued expenses as of December 31, 2022 and 2021, comprise employee wages payable and related liabilities

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

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

Long-term Debt

At December 31, 2022 and 2021, long-term debt consisted of principal amounts due to United States Department of Agriculture and Arkansas Natural Resources Commission. See note 6 for further detail.

Restricted Resources

When the Water Treatment Plant has both restricted and unrestricted resources available to finance a particular program, it is the Water Treatment Plant's policy to use restricted resources before unrestricted assets.

Grants and Contributions

From time to time, the Water Treatment Plant receives grants and contributions from federal and state governments, individuals, and private organizations. Revenues 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 revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

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 are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Water Treatment Plant, such as permanent endowments.

Unrestricted net position – this component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets" as defined above.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

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

Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These reclassifications had no effect on net earnings as previously reported.

Note 2 – Significant Concentration of Trade Accounts Receivable

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from other municipalities and water associations located within the same geographic region. The Water Treatment Plant grants unsecured credit to these municipalities and water associations.

Note 3 – Significant Concentration of Credit Risk

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 Treatment Plant's deposit policy for custodial credit risk requires compliance with the provision of state law. At December 31, 2022, the Water Treatment Plant's carrying amount of deposits was \$1,611,187. The bank balance of \$1,616,939 was fully covered by Federal Depository Insurance and pledged collateral held by the pledging financial institution in the Water Treatment Plant's name.

Interest rate risk – The Water Treatment Plant 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 Treatment Plant does not have a formal policy that limits exposure to credit risk.

Concentration of credit risk – The Water Treatment Plant places no limit on the amount it may invest in any one issuer.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 3 – Significant Concentration of Credit Risk (Cont.)

The carrying amounts of deposits are included in the Water Treatment Plant's balance sheets as follows:

	<u>2022</u>	<u>2021</u>
Deposits	\$ 1,611,187	\$ 1,376,770
Total	<u>\$ 1,611,187</u>	<u>\$ 1,376,770</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 1,186,380	\$ 997,855
Noncurrent cash and cash equivalents	<u>424,807</u>	<u>378,915</u>
Total	<u>\$ 1,611,187</u>	<u>\$ 1,376,770</u>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest income	<u>\$ 3,990</u>	<u>\$ 3,550</u>

Note 4 – Interfund Balances

At December 31, 2022 and 2021, interfund receivables consisted of the amount due from the City of Mountain View Water Treatment Plant for water purchased for distribution.

At December 31, 2022 and 2021, interfund payables consisted of the amounts due to the City of Mountain View Water and Wastewater for the water utilized at the water plant.

Both the interfund receivable and payable balances are classified as current assets and liabilities, respectively, as the amounts are expected to be collected/paid within one year.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation

Capital asset additions, retirements and balances for the years ended December 31, 2022 and 2021 were as follows:

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer Between Funds/ Reclass</u>	<u>Balance 12/31/2022</u>
Capital assets not being depreciated:					
Land and land rights	\$ 50,259	\$ -	\$ -	\$ -	\$ 50,259
Total capital assets not being depreciated	<u>50,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,259</u>
Capital assets being depreciated:					
System and improvements	13,153,733	-	-	-	13,153,733
Equipment, furniture and fixtures	712,361	-	-	-	712,361
Vehicles	185,131	-	-	-	185,131
Total capital assets being depreciated	<u>14,051,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,051,225</u>
Less accumulated depreciation for:					
System and improvements	(5,941,285)	(316,984)	-	-	(6,258,269)
Equipment, furniture and fixtures	(683,578)	(5,255)	-	-	(688,833)
Vehicles	(104,598)	(31,596)	-	-	(136,194)
Total accumulated depreciation	<u>(6,729,461)</u>	<u>(353,835)</u>	<u>-</u>	<u>-</u>	<u>(7,083,296)</u>
Total capital assets being depreciated, net	<u>7,321,764</u>	<u>(353,835)</u>	<u>-</u>	<u>-</u>	<u>6,967,929</u>
Capital assets, net	<u>\$ 7,372,023</u>	<u>\$ (353,835)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,018,188</u>

Depreciation expense for the year ended December 31, 2022 was \$353,835.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 5 – Capital Assets and Depreciation (Cont.)

	<u>Balance 12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer Between Funds/ Reclass</u>	<u>Balance 12/31/2021</u>
Capital assets not being depreciated:					
Land and land rights	\$ 50,259	\$ -	\$ -	\$ -	\$ 50,259
Total capital assets not being depreciated	<u>50,259</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,259</u>
Capital assets being depreciated:					
System and improvements	13,068,203	85,530	-	-	13,153,733
Equipment, furniture and fixtures	687,152	25,209	-	-	712,361
Vehicles	185,131	-	-	-	185,131
Total capital assets being depreciated	<u>13,940,486</u>	<u>110,739</u>	<u>-</u>	<u>-</u>	<u>14,051,225</u>
Less accumulated depreciation for:					
System and improvements	(5,627,508)	(313,777)	-	-	(5,941,285)
Equipment, furniture and fixtures	(647,817)	(35,761)	-	-	(683,578)
Vehicles	(73,002)	(31,596)	-	-	(104,598)
Total accumulated depreciation	<u>(6,348,327)</u>	<u>(381,134)</u>	<u>-</u>	<u>-</u>	<u>(6,729,461)</u>
Total capital assets being depreciated, net	<u>7,592,159</u>	<u>(270,395)</u>	<u>-</u>	<u>-</u>	<u>7,321,764</u>
Capital assets, net	<u>\$ 7,642,418</u>	<u>\$ (270,395)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,372,023</u>

Depreciation expense for the year ended December 31, 2021 was \$381,134.

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 6 – Long-Term Liabilities

A schedule of changes in the Water Treatment Plant's long-term liabilities for the years ended December 31, 2022 and 2021 follows:

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2022</u>	<u>Amounts Due Within One Year</u>
1997 Bond (RD 91-05)	\$ 2,704,591	\$ -	\$ (118,762)	\$ 2,585,829	\$ 124,208
1997 Bond (RD 91-07)	75,197	-	(3,321)	71,876	3,472
Total long-term liabilities	<u>\$ 2,779,788</u>	<u>\$ -</u>	<u>\$ (122,083)</u>	<u>\$ 2,657,705</u>	<u>\$ 127,680</u>
	<u>Balance 12/31/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2021</u>	<u>Amounts Due Within One Year</u>
1997 Bond (RD 91-05)	\$ 2,818,136	\$ -	\$ (113,545)	\$ 2,704,591	\$ 118,752
1997 Bond (RD 91-07)	78,371	-	(3,174)	75,197	3,320
Total long-term liabilities	<u>\$ 2,896,507</u>	<u>\$ -</u>	<u>\$ (116,719)</u>	<u>\$ 2,779,788</u>	<u>\$ 122,072</u>

USDA Bonds:

On July 16, 1998, a loan agreement was signed with the United States Department of Agriculture, Rural Development in exchange for the 1997 bond issue for funds for improvements to the Water Treatment Plant. The initial loan 91-05, in the amount of \$4,321,400, bears interest at 4.50% and is collateralized by the system revenues. Payments, in the amount of \$19,836, are due monthly through July 2037. The subsequent loan 91-07, in the amount of \$120,400, bears interest at 4.50% and is also collateralized by the Water Treatment Plant revenues. Payments, in the amount of \$553, are due monthly through July 2037. This subsequent loan was originally carried on the Water Treatment Plant's books. During the year ended December 31, 2007, the loan was transferred to the Water Treatment Plant's books as of September 01.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>December 31,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2023	127,680	116,988
2024	133,546	111,122
2025	139,681	104,987
2026	146,098	98,570
2027	152,809	91,859
2028 - 2032	876,024	347,316
2033 - 2037	<u>1,081,867</u>	<u>126,716</u>
Total	<u>\$ 2,657,705</u>	<u>\$ 997,558</u>

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 7 – Fund Requirements

Ordinance Number 97-14, as amended by Ordinance Number 98-7, authorized the issuance of the 1997 series of water and sewer revenue bonds. Ordinance No. 97-14 established certain funds and the manner in which revenues are to be deposited and transferred between the various funds. Cash funds were deposited and transferred as required.

The debt service revenue account for the initial loan (91-05) is to have \$1,983 per month transferred to it until a reserve of \$238,032 is established. As this reserve has been met, no further transfers were required during the years ended December 31, 2022 and 2021.

The debt service account for the subsequent loan (91-07) is to have \$55 per month transferred into it until a total reserve of \$6,638 is reached. As this reserve has been met, no further transfers were required during the years ended December 31, 2022 and 2021.

Note 8 – Insurance Coverage

The City of Mountain View Water Treatment Plant has purchased commercial insurance coverage to cover potential losses due to the various risks related to the damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Water Treatment Plant had no claims in excess of insurance coverage in the past three years. Further, there were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

Note 9 – Water Rates and Volume

Water rates in effect during the years ended December 31, 2022 and 2021 were \$1.94 per 1,000 gallons. Total water gallons sold during the years ended December 31, 2021 and 2020 were 528,437,200 and 525,677,300, respectively.

Note 10 – Water Treatment Plant Governing Body

Effective March 26, 2007, the Mountain View, Arkansas City Council is the governing body for the Water Treatment Plant. Members of the Mountain View City Council for the years ending December 31, 2022 and 2021 are as follows:

<u>2022</u>	<u>2021</u>
J. K. Williams	J. K. Williams
Truman Bullard	Truman Bullard
Dana Woods	Dana Woods
Danny Simmons	Danny Simmons
Wayne "Ricky" Shuttleworth	Wayne "Ricky" Shuttleworth
Finis Brewer	Finis Brewer

**CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT**

Notes to Financial Statements

December 31, 2022 and 2021

Note 11 – Capital Contributions

During the year ended December 31, 2021, capital improvements from the City's American Rescue Plan Act Funding to the water treatment plant were recorded on the books of the Water Treatment Plant in the amount of \$86,123.

Note 12 – Subsequent Events

Management has evaluated subsequent events through October 3 2023, 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.

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT

Supplemental Schedule of Consumption
For the Year Ended December 31, 2022

<u>Month</u>	<u>Gallons Sold</u>
January	42,319,800
February	39,823,600
March	39,319,100
April	41,584,800
May	38,464,400
June	46,938,800
July	53,546,100
August	55,477,300
September	45,513,200
October	48,083,300
November	39,558,900
December	37,807,900
Total consumption	<u>528,437,200</u>
Monthly averages	<u>44,036,433</u>

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT

Supplemental Schedule of Consumption
For the Year Ended December 31, 2021

<u>Month</u>	<u>Gallons Sold</u>
January	38,364,600
February	54,986,500
March	27,370,400
April	38,296,000
May	43,464,600
June	41,494,500
July	51,054,800
August	52,753,500
September	50,269,100
October	44,886,600
November	45,480,400
December	37,256,300
Total consumption	<u>525,677,300</u>
Monthly averages	<u>43,806,442</u>



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
M. Garrett McSpadden, CPA

Members of American Institute of Certified Public Accountants

**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 Mayor and Members of the City Council
City of Mountain View, Arkansas

We have audited 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 Water Treatment Plant of the City of Mountain View, Arkansas, as of and for the year ended December 31, 2022, and the related notes to financial statements, which collectively comprise the Water Treatment Plant's basic financial statements, and have issued our report thereon dated October 3 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Mountain View, Arkansas Water Treatment Plant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Treatment Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water Treatment Plant'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 Treatment Plant'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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and management responses as item #2022-01, that we consider to be a significant deficiency in internal control.

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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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Mountain View, Arkansas Water Treatment Plant'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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Mountain View, Arkansas Water Treatment Plant's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Mountain View, Arkansas's response to the findings identified in our audit and described in the accompanying schedule of findings and management responses. The City of Mountain View, Arkansas'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 result of that testing, and not to provide an opinion on the effectiveness of the Water Treatment Plant'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 Treatment Plant'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
October 3, 2023

CITY OF MOUNTAIN VIEW, ARKANSAS
WATER TREATMENT PLANT
Schedule of Findings and Management Responses
For the Year Ended December 31, 2022

Financial Statement Findings

Significant Deficiencies:

2022-01 – Segregation of Duties

Condition: Due to the limited number of personnel, there is a general lack of segregation of accounting duties. Water Treatment Plant personnel have access to or physical custody of assets and perform accounting functions which may not be compatible from a control perspective.

Criteria: Internal controls should be in place to eliminate the incompatible functions of authorization, physical custody of assets and recording of transactions.

Effect: Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

Cause: Small number of people responsible for the financial transactions of the Water Treatment Plant.

Recommendation: Such activities should be split between employees to the greatest extent possible in order to separate incompatible duties.

Management's Response: The Water Treatment Plant will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties.