

POTTSVILLE MUNICIPAL WATER AND SEWER
DEPARTMENT

DECEMBER 31, 2022 AND 2021

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT

DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTAL INFORMATION	
Management's Discussion and Analysis	13
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	14

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INDEPENDENT AUDITOR'S REPORT

City Council Members and Management
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pottsville Municipal Water and Sewer Department, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Pottsville Municipal Water and Sewer Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Pottsville Municipal Water and Sewer Department, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, 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 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 Pottsville Municipal Water and Sewer Department and to meet our other 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.

Responsibilities of Management for the Financial Statements

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

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 Pottsville Municipal Water and Sewer Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pottsville Municipal Water and Sewer Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pottsville Municipal Water and Sewer Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on page 11 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 Pottsville Municipal Water and Sewer Department's 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

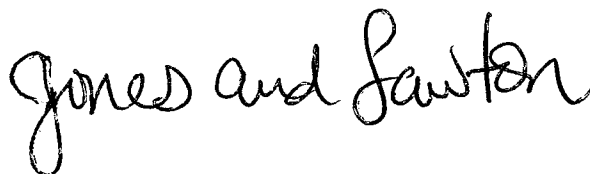
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2023, on our consideration of the Pottsville Municipal Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pottsville Municipal Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pottsville Municipal Water and Sewer Department's internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
August 8, 2023

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents (Note 2)			
Unrestricted		\$ 618,561	\$ 289,278
Restricted		282,780	304,342
Accounts Receivable - Net		108,349	81,121
		<u>1,009,690</u>	<u>674,741</u>
Property And Equipment			
Water System		2,489,453	2,489,453
Sewer System		4,079,276	3,814,718
Buildings		274,173	274,173
Automobiles and Equipment		311,800	311,800
Office Equipment		72,226	72,226
Land		112,083	112,083
		<u>7,339,011</u>	<u>7,074,453</u>
Less: Accumulated Depreciation		<u>3,701,802</u>	<u>3,528,293</u>
		<u>3,637,209</u>	<u>3,546,160</u>
		<u>4,646,899</u>	<u>4,220,901</u>
	<u>LIABILITIES</u>		
Accounts Payable		31,450	26,330
Accrued Expenses		10,355	8,196
Customer Deposits		105,214	102,286
Long-term Liabilities (Note 3)			
Due Within 1 Year		175,000	170,000
Due in More Than 1 Year		2,445,000	2,620,000
		<u>2,767,019</u>	<u>2,926,812</u>
	<u>NET POSITION</u>		
Unrestricted Net Assets		1,702,314	1,092,033
Restricted Net Assets		177,566	202,056
		<u>1,879,880</u>	<u>1,294,089</u>
		<u>\$ 4,646,899</u>	<u>\$ 4,220,901</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 813,267	\$ 634,520
Hook-up Fees and Other Income	498,539	404,999
Interest Income	735	841
Cares Act Income	344,643	343,846
	<u>1,657,184</u>	<u>1,384,206</u>
<u>OPERATING EXPENSES</u>		
Water Purchases	158,748	229,839
Salaries	202,485	228,720
Utilities	69,554	69,164
Auto	21,899	13,965
Insurance	27,276	36,376
Supplies and Maintenance	220,070	156,583
Office Supplies and Postage	52,800	36,420
Taxes and Permits	15,794	18,679
Depreciation	173,509	218,886
Professional Fees	8,953	8,000
Retirement Expense	29,794	26,768
Miscellaneous	44,847	58,209
	<u>1,025,729</u>	<u>1,101,609</u>
Operating Income	631,455	282,597
<u>OTHER INCOME (EXPENSE)</u>		
Interest Expense	<u>(45,664)</u>	<u>(78,135)</u>
INCREASE IN NET POSITION	585,791	204,462
NET POSITION, BEGINNING OF YEAR	<u>1,294,089</u>	<u>1,089,627</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,879,880</u></u>	<u><u>\$ 1,294,089</u></u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 585,791	\$ 204,462
Adjustments to Reconcile Change in Net Income to Net Cash Provided by Operating Activities:		
Depreciation	173,509	218,886
(Increase) Decrease:		
Accounts Receivable	(27,228)	12,030
Increase (Decrease):		
Accounts Payable	5,120	2,830
Accrued Expenses	2,159	(1,848)
Customer Deposits	2,928	465
Total Adjustments	<u>156,488</u>	<u>232,363</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>742,279</u>	<u>436,825</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	<u>(264,558)</u>	<u>(214,306)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(264,558)</u>	<u>(214,306)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Increase) Decrease in Bonds Payable	(170,000)	0
Proceeds from Bonds Payable - Series 2021	0	2,715,000
Repayment of Bonds Payable	<u>0</u>	<u>(2,765,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(170,000)</u>	<u>(50,000)</u>
NET INCREASE IN CASH	307,721	172,519
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>593,620</u>	<u>421,101</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 901,341</u></u>	<u><u>\$ 593,620</u></u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for Interest	<u><u>\$ 45,896</u></u>	<u><u>\$ 79,963</u></u>
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 618,561	\$ 289,278
Restricted Cash	<u>282,780</u>	<u>304,342</u>
	<u><u>\$ 901,341</u></u>	<u><u>\$ 593,620</u></u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Pottsville Municipal Water and Sewer Department is a municipal corporation governed by an elected Mayor-Council form of government. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14 have been considered. These financial statements represent only the Water and Sewer Department ("the Department") fund and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Department are grouped in the financial statements into one fund type and one generic fund as follows:

Organization

Enterprise funds-Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Department uses the accrual basis of accounting which recognizes revenues when they are earned and expenses when they are incurred.

Under this basis of accounting and measurement focus, the Department applies all Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) statements and interpretations issued after November 30, 1989 developed for business enterprises. The Department does not apply FASB ASC statements and interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations.

Cash and Cash Equivalents

The Department considers cash equivalents to be short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Cash and cash equivalents" and "Restricted Assets-Cash and cash equivalents".

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Regulatory Environment

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Health Department. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Health Department.

Income Tax

The Pottsville, Arkansas Water and Sewer System is municipally owned and is exempt from Federal and State income tax.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Water and sewer system	40 yrs
Building	40
Automobiles and equipment	5
Office equipment	5

Property and Equipment

Property and Equipment at December 31, 2022 consists of the following:

	Balance 12-31-2021	<u>Additions</u>	<u>Deletions</u>	Balance 12-31-2022
Land	\$ 112,083	\$		\$ 112,083
Water System	2,489,453			2,489,453
Sewer System	3,814,718	264,558		4,079,276
Vehicles	311,800			311,800
Office Equipment	72,226			72,226
Building	274,173			274,173
	<u>\$ 7,074,453</u>	<u>\$ 264,558</u>		<u>\$ 7,339,011</u>

Property and Equipment at December 31, 2021 consists of the following:

	Balance 12-31-2020	<u>Additions</u>	<u>Deletions</u>	Balance 12-31-2021
Land	\$ 112,083	\$		\$ 112,083
Water System	2,420,080	39,373		2,489,453
Sewer System	3,733,981	80,737		3,814,718
Vehicles	252,341			311,800
Office Equipment	72,226			72,226
Building	269,436	4,737		274,173
	<u>\$ 6,860,147</u>	<u>\$ 351,828</u>		<u>\$ 7,074,453</u>

JONES and LAWTON, CPAs, P.A.
A PROFESSIONAL ASSOCIATION
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POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The Department's financial instruments include cash, cash equivalents and trade securities. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

Capitalization of Interest Costs

The Department capitalizes interest costs as part of the total acquisition costs of construction related to the addition to and/or improvement of facilities. Interest costs capitalized include only the interest incurred during the construction period on debt used to finance the project. The interest capitalization period commences with the first expenditure for the project and continues until the constructed project is substantially complete and ready for its intended use, at which time interest capitalization ceases.

Accounts Receivable and Bad Debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

NOTE 2: CASH AND CASH EQUIVALENTS

The cash balance is composed of unrestricted and restricted funds as follows:

	<u>2022</u>	<u>2021</u>
<u>Unrestricted</u>		
Water system operating fund	\$ 618,561	\$ 289,278
<u>Restricted</u>		
Depreciation fund	29,122	29,122
Bond debt service fund	148,444	172,934
Meter deposit fund	105,214	102,286
	<u>282,780</u>	<u>304,342</u>
	<u>\$ 901,341</u>	<u>\$ 593,620</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3: LONG-TERM DEBT

Long-term debt detail at December 31, 2022:

	<u>12-31-2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2022</u>
City of Pottsville Arkansas Water & Sewer Refunding and Improvement Revenue Bonds – Series 2021				
Interest ranges from 2.0% to 3.25% and are payable semiannually on June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption by lot in such manner as the trustee shall determine on December 1 of each year until December 1, 2039 when the full redemption is due.	\$ 2,690,000		\$ 170,000	\$ 2,520,000
City of Pottsville – General Fund – Building	<u>100,000</u>		<u>.</u>	<u>100,000</u>
	<u>\$ 2,790,000</u>		<u>\$ 170,000</u>	<u>2,620,000</u>
Less Current Maturities Payable				<u>175,000</u>
				<u>\$ 2,445,000</u>

In October 2021, the City issued the City of Pottsville, Arkansas Water And Sewer Refunding Revenue Bonds Series 2021 in the amount of \$2,715,000. The proceeds of the bond issue, after payment of issuance and underwriter discount, were used to payoff the Series 2016 bond issue. Bond issuance costs of \$44,169 are expensed in the current period.

The principal and interest payments due on long-term debt for the years succeeding December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 175,000	\$ 41,550	\$ 216,550
2024	180,000	38,050	218,050
2025	185,000	34,450	219,450
2026	185,000	33,063	218,063
2027	190,000	29,363	219,363
2028-2032	980,000	109,480	1,089,480
2033-2037	<u>725,000</u>	<u>24,844</u>	<u>749,844</u>
	<u>\$ 2,620,000</u>	<u>\$ 310,800</u>	<u>\$ 2,930,800</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3: LONG-TERM DEBT (continued)

Long-term debt detail at December 31, 2021:

	<u>12-31-2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2021</u>
City of Pottsville Arkansas Water & Sewer Refunding and Improvement Revenue Bonds – Series 2021				
Interest ranges from 2.0% to 3.25% and are payable semiannually on June 1 and December 1. The bonds are subject to a mandatory sinking fund redemption by lot in such manner as the trustee shall determine on December 1 of each year until December 1, 2039 when the full redemption is due.	\$ 2,575,000	\$ 2,715,000	\$ 2,600,000	\$ 2,690,000
City of Pottsville – General Fund – Building	100,000	.	.	100,000
	<u>\$ 2,675,000</u>	<u>\$ 2,715,000</u>	<u>\$ 2,600,000</u>	<u>2,790,000</u>
Less Current Maturities Payable				<u>170,000</u>
				<u>\$ 2,620,000</u>

The principal and interest payments due on long-term debt for the years succeeding December 31, 2021 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 170,000	\$ 44,950	\$ 214,950
2023	175,000	41,550	216,550
2024	180,000	38,050	218,050
2025	185,000	34,450	219,450
2026	185,000	33,063	218,063
2027-2031	970,000	122,850	1,092,850
2032-2036	925,000	40,837	995,837
	<u>\$ 2,790,000</u>	<u>\$ 355,750</u>	<u>\$ 3,145,750</u>

NOTE 4: SCHEDULE OF RATES

Monthly Water Rates:

Inside City Limits

- a. Minimum charge on first 1,000 gallons, \$20.00.
- b. Charge of \$3.41 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$2.89 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.36 per 1,000 gallons for the usage over 10,000 gallons.

Outside City Limits

- a. Minimum charge on first 1,000 gallons, \$24.00.
- b. Charge of \$4.20 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$3.68 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.63 per 1,000 gallons for the usage over 10,000 gallons.

Monthly Sewer Rates:

- a. Minimum charge on first 1,000 gallons, \$15.00.
- b. Charge of \$4.20 per 1,000 gallons for the next 5,000 gallons.
- c. Charge of \$3.68 per 1,000 gallons for the next 4,000 gallons.
- d. Charge of \$2.63 per 1,000 gallons for the usage over 10,000 gallons.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 12-19-23
Coverage: Water and sewer buildings, and equipment - \$1,926,000

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 11-08-23
Coverage: Automobile liability and physical damage

Company: Arkansas Fidelity Bond Trust Fund
Policy No.: FBTF12
Expiration: 06-30-23
Coverage: \$300,000

Company: Municipal League Worker's Compensation Trust
Policy: Workers compensation
Expiration: 12-31-23

NOTE 6: RETIREMENT PLAN

The Department maintains a 403(b) Retirement Plan administered by the Arkansas Public Retirement System. All employees who choose to participate are required to make a 5% salary reduction contribution to the Plan. The Department makes a contribution of 15.32% of salary. The Department contributions for 2022 and 2021 were \$29,794 and \$26,768 respectively.

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 8, 2023, which is the date the financial statements were available to be issued.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

Pottsville Municipal Water and Sewer Department discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the Department's financial activity
- Identify changes in the Department's financial position
- Identify individual fund issues or concerns

Overview of the Financial Statements

The financial statements of the Department reports information about the Department using accounting methods similar to those used by private business enterprises. These statements provide both long-term and short-term information about the Department's overall financial status.

The Statements of Net Position present information on all the Department's assets and liabilities with the difference between the two reported as net position.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Department's net position changed during the most recent and current years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operations, financing, and investing activities. These statements provide information regarding sources of cash and use of cash.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the Department

The assets of the Department exceeded its liabilities at the close of the most recent fiscal year by \$1,879,880 (net position).

Total assets amounted to \$4,646,899 consisting of net capital assets of \$3,637,209 and other assets of \$1,009,690. Total assets increased by \$425,998 during the current fiscal year. This change was due to an increase in capital assets of \$264,558, a net increase in other assets of \$334,949, offset by an increase in accumulated depreciation of \$173,509.

Total liabilities amounted to \$2,767,019 consisting of long-term liabilities of \$2,620,000 and other liabilities of \$147,019. Total liabilities decreased by \$159,793 during the current fiscal year. \$170,000 of this change was due to net decrease in long term debt, partially offset by a net decrease in other liabilities of \$10,207.

The Department experienced an increase in total cash in the amount of \$307,721 during the current year. This increase consisted of an increase in unrestricted cash in the amount of \$329,283 partially offset by a decrease in restricted cash in the amount of \$21,562.

Economic Factors

The Department indicated no changes due to current economic factors.

Request for Information

This report is designed to provide a general overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Pottsville Municipal Water and Sewer, 173 E Ash Street, Pottsville, Arkansas 72858.

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

City Council and Management
Pottsville Municipal Water and Sewer Department
Pottsville, Arkansas

We have audited the financial statements of Pottsville Municipal Water and Sewer Department as of and for the years ended December 31, 2022 and 2021, and have issued our report thereon dated August 8, 2023. The report on the Department as of and for the years ended December 31, 2022 and 2021 was qualified because the Department elected not to implement GASB Statement No. 34. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Segregation of Duties

A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute and record the same transaction. Due to having a limited number of personnel to handle accounting functions, some duties and functions performed are contrary to ideal control procedures. However, the Department has attempted to segregate duties to the extent management feels possible with the limited number of staff available.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Purpose of this Report

This report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance and is intended for the information and use of management and the City Council of Pottsville, Arkansas. Accordingly, this report is not intended to be, and should not be, used by anyone other than these specified parties, for any other purposes.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
August 8, 2023

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.