

POTTSVILLE MUNICIPAL WATER AND SEWER
DEPARTMENT

DECEMBER 31, 2023 AND 2022

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT

DECEMBER 31, 2023 AND 2022

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MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS..... 16**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audits of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Pottsville Municipal Water and Sewer Department, which is a component unit of the City of Pottsville, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the 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 Pottsville Municipal Water and Sewer Department, as of December 31, 2023 and 2022, 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 audits 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 Auditors' Responsibilities for the Audits 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 audits. 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.

Auditors' 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 auditors' 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 audits.
- 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 audits 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 audits, 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 14 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 audits 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 audits were 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2024, 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 audits 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 5, 2024

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

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents (Note 2)		
Unrestricted	\$ 540,368	\$ 618,561
Restricted	284,943	282,780
Accounts Receivable - Net	138,984	108,349
	<u>964,295</u>	<u>1,009,690</u>
Property And Equipment (Note 3)		
Water System	2,676,377	2,489,453
Sewer System	4,233,436	4,079,276
Buildings	274,173	274,173
Automobiles and Equipment	311,800	311,800
Office Equipment	72,226	72,226
Land	112,083	112,083
	<u>7,680,095</u>	<u>7,339,011</u>
Less: Accumulated Depreciation	3,875,241	3,701,802
	<u>3,804,854</u>	<u>3,637,209</u>
	<u><u>4,769,149</u></u>	<u><u>4,646,899</u></u>

LIABILITIES

Accounts Payable	30,334	31,450
Accrued Expenses	9,750	10,355
Customer Deposits	105,621	105,214
Long-term Liabilities (Note 4)		
Due Within 1 Year	180,000	175,000
Due in More Than 1 Year	2,265,000	2,445,000
	<u>2,590,705</u>	<u>2,767,019</u>

NET POSITION

Net Invested in Capital Assets	1,359,854	1,017,209
Unrestricted	639,268	685,105
Restricted	179,322	177,566
	<u>2,178,444</u>	<u>1,879,880</u>
	<u><u>\$ 4,769,149</u></u>	<u><u>\$ 4,646,899</u></u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 833,065	\$ 813,267
Hook-up Fees and Other Income	481,418	498,539
Cares Act Income	0	344,643
	1,314,483	1,656,449
 <u>OPERATING EXPENSES</u>		
Water Purchases	165,939	158,748
Salaries	212,960	202,485
Utilities	70,289	69,554
Auto	25,758	21,899
Insurance	22,862	27,276
Supplies and Maintenance	139,858	220,070
Office Supplies and Postage	74,538	52,800
Taxes and Permits	18,202	15,794
Depreciation	173,439	173,509
Professional Fees	8,500	8,953
Retirement Expense	31,768	29,794
Miscellaneous	31,394	44,847
	975,507	1,025,729
 Operating Income	338,976	630,720
 OTHER INCOME (EXPENSE)		
Interest Income	1,788	735
Interest Expense	(42,200)	(45,664)
	(40,412)	(44,929)
 INCREASE IN NET POSITION	298,564	585,791
 NET POSITION, BEGINNING OF YEAR	1,879,880	1,294,089
 NET POSITION, END OF YEAR	\$ 2,178,444	\$ 1,879,880

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 1,284,260	\$ 1,287,506
Care Act Income	0	344,643
Payments to Suppliers	(434,354)	(509,998)
Payments to Employees	(249,995)	(248,671)
Payments for Other Admin Costs	(119,153)	(86,040)
NET CASH PROVIDED BY OPERATING ACTIVITIES	480,758	787,440
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	1,788	735
Purchases of Property and Equipment	(341,084)	(264,558)
NET CASH USED BY INVESTING ACTIVITIES	(339,296)	(263,823)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Paid on Bonds Payable	(42,492)	(45,896)
Reduction in Bonds Payable	(175,000)	(170,000)
NET CASH USED BY FINANCING ACTIVITIES	(217,492)	(215,896)
NET CHANGE IN CASH	(76,030)	307,721
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	901,341	593,620
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 825,311	\$ 901,341
 <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u>		
Cash Paid During the Year for Interest	\$ 42,492	\$ 45,896
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 540,368	\$ 618,561
Restricted Cash	284,943	282,780
	\$ 825,311	\$ 901,341

See Independent Auditors' Report and Notes to Financial Statements

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from Operations	\$ 338,976	\$ 630,720
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	173,439	173,509
Interest Expense Included in Operating Income (Loss)	-	-
(Increase) Decrease in Accounts Receivable	(30,635)	(27,228)
(Increase) Decrease in Accrued Interest Receivable	-	-
(Increase) Decrease in Prepaid Expenses	-	-
Increase (Decrease) in Accounts Payable	(1,116)	5,120
Increase (Decrease) in Accrued Expenses	(313)	2,391
Increase (Decrease) in Customer Deposits	407	2,928
	141,782	156,720
Net Cash Provided by Operating Activities	\$ 480,758	\$ 787,440

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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.

Organization

The Department is a proprietary fund type utilizing enterprise funds 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.

These financial statements represent only the Water and Sewer System funds 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 generic fund type.

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.

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 Cash and cash equivalents". The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Customers are required to make a deposit which is recorded on the balance sheet. When a bad debt is identified, the deposit can be offset against the receivable to mitigate the bad debt.

Property and Equipment

Property and equipment are recorded at cost and is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

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

Depreciation expenses for the years ended December 31, 2023 and 2022 amounted to \$173,439 and \$173,509 respectively.

Compensated Absences

Employees of the Department are entitled to paid vacations and sick days depending on job classification, length of service, and other factors. It is important to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Department's policy is to recognize the costs of compensated absences when paid to employees.

Fair Value of Financial Instruments

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

Income Tax

The Pottsville, Arkansas Water and Sewer System is municipally owned and is exempt from Federal and State income tax pursuant to Internal Revenue Code 501(c)(12) and Arkansas Act 114 of 1957, which also exempts the Department from filing Tax Form 990 .

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of 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.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Budget

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

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.

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2023 and 2022, the Department had cash and cash equivalents as follows:

	<u>2023</u>	<u>2022</u>
<u>Unrestricted</u>		
Water system operating fund	\$ 540,368	\$ 618,561
<u>Restricted</u>		
Depreciation fund	29,122	29,122
Bond debt service fund	150,200	148,444
Meter deposit fund	<u>105,621</u>	<u>105,214</u>
	<u>284,943</u>	<u>282,780</u>
	<u>\$ 825,311</u>	<u>\$ 901,341</u>

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 3: PROPERTY AND EQUIPMENT (at Cost)

At December 31, 2023, the Department had property and equipment as follows:

	<u>12-31-2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2023</u>
Land	\$ 112,083	\$		\$ 112,083
Water System	2,489,453	186,924		2,676,377
Sewer System	4,079,276	154,160		4,233,436
Vehicles	311,800			311,800
Office Equipment	72,226			72,226
Building	<u>274,173</u>			<u>274,173</u>
	<u>\$ 7,339,011</u>	<u>\$ 341,084</u>		<u>\$ 7,680,095</u>

At December 31, 2022, the Department had property and equipment as follows:

	<u>12-31-2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2022</u>
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	<u>274,173</u>			<u>274,173</u>
	<u>\$ 7,074,453</u>	<u>\$ 264,558</u>		<u>\$ 7,339,011</u>

NOTE 4: LONG-TERM DEBT

Long-term debt detail at December 31, 2023:

	<u>12-31-2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2023</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.	\$ 2,520,000		\$ 175,000	\$ 2,345,000
City of Pottsville – General Fund – Building	<u>100,000</u>			<u>100,000</u>
	<u>\$ 2,620,000</u>		<u>\$ 175,000</u>	<u>2,445,000</u>
Less Current Maturities Payable				<u>180,000</u>
				<u>\$ 2,265,000</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.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4: LONG-TERM DEBT (continued)

The principal and interest payments due on long-term debt for the years succeeding December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	190,000	27,225	217,225
2029-2033	995,000	94,499	1,089,499
2034-2035	520,000	12,600	532,600
	<u>\$ 2,445,000</u>	<u>\$ 269,250</u>	<u>\$ 2,714,250</u>

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	100,000			100,000
	<u>\$ 2,790,000</u>		<u>\$ 170,000</u>	2,620,000
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	725,000	24,844	749,844
	<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, 2023 AND 2022

NOTE 5: SCHEDULE OF RATES

The water and sewer rates during the year 2023 were unchanged from 2022, and were as follows:

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.

NOTE 6: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 12-19-24
Coverage: Water and sewer buildings, and equipment - \$1,926,000

Company: Arkansas Municipal League
Policy No.: 03250
Expiration: 11-08-24
Coverage: Automobile liability and physical damage

Company: Arkansas Fidelity Bond Trust Fund
Policy No.: FBTF12
Expiration: 06-30-24
Coverage: \$300,000

Company: Municipal League Worker's Compensation Trust
Policy: Workers compensation
Expiration: 12-31-24

NOTE 7: 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 2023 and 2022 were \$31,768 and \$29,794 respectively.

POTTSVILLE MUNICIPAL WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8: CONCENTRATION OF CREDIT RISK

The Department provides water services and sewer services (if applicable) to residents of Pottsville, Arkansas, and the surrounding rural community. The Department grants unsecured credit to its customers. The credit risk is considered minimal because the monthly revolving accounts receivable balances are small, the customer base is very stable with minimal changes, and the limited geographical area covered. And there is no cash credit risk because the Departments balances are below the FDIC insurance limits.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 5, 2024, 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, 2023

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 \$2,178,444 (net position).

Total assets amounted to \$4,769,149 consisting of net capital assets of \$3,804,854 and other assets of \$964,295. Total assets increased by \$122,250 during the current fiscal year. This change was due to an increase in capital assets of \$341,084, offset by a net decrease in other assets of \$45,395, and an increase in accumulated depreciation of \$173,439.

Total liabilities amounted to \$2,590,705 consisting of long-term liabilities of \$2,445,000 and other liabilities of \$145,705. Total liabilities decreased by \$176,314 during the current fiscal year. This change was due to a decrease in long term debt of \$175,000, and a net decrease in other liabilities of \$ 1,314.

The Department experienced a decrease in total cash in the amount of \$76,030 during the current year. This decrease consisted of a decrease in unrestricted cash in the amount of \$78,193 partially offset by an increase in restricted cash in the amount of \$2,163.

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.

See Independent Auditors' Report

JONES and LAWTON, CPAs, P.A.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pottsville Municipal Water and Sewer Department, which is a component unit of the City of Pottsville, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Pottsville Municipal Water and Sewer Department's basic financial statements, and have issued our report thereon dated August 5, 2024.

Report on Internal Control over Financial Reporting

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

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

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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pottsville Municipal Water and Sewer Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

Purpose of This Report

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

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
August 5, 2024

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