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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019

****

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CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

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INDEPENDENT AUDITOR'S REPORT

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

Dear Mayor and Council Members:

Report on Financial Statements

I have audited the accompanying financial statements of the City of Cotter Municipal Water and Wastewater Fund, as of and for the year ended December 31, 2019, and related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, I express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Cotter Municipal Water and Wastewater Fund as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Municipal Water and Sewer Fund and do not purport to and do not, present fairly the financial position of the City of Cotter, Arkansas as of December 31, 2019, the changes in its financial position, or where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The water budget, sewer budget, users by class and water rates are presented for the purpose of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, I have also issued my report dated June 30, 2020, on my consideration of the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Cotter Municipal Water and Wastewater Fund's internal control over financial reporting and compliance.

Brian L. Haas, CPA
Mountain Home, AR 72653

June 30, 2020

As management of the City of Cotter Municipal Water and Wastewater Fund, we offer readers of the Municipal Water and Wastewater Fund's financial statements this narrative overview and analysis of the Municipal Water and Wastewater Fund's financial performance during the fiscal year ended December 31, 2019. Please read it in conjunction with the Municipal Water and Wastewater Fund's financial statements, which follow this section.

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

FINANCIAL HIGHLIGHTS

As of December 31, 2019:

- The Municipal Water and Wastewater Fund's assets exceeded its liabilities by $1,098,147 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by $1,134,896.

- Total net assets are comprised of the following:

  Capital assets, net of related debt of $510,898, including property and equipment net of accumulated depreciation.

- Temporarily restricted assets of $441,955 are reserved by constraints imposed by outside the Municipal Water and Wastewater Fund, such as debt covenants, grantors, laws or regulations.

- Unrestricted assets of $145,294 represent portion available to maintain ongoing operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

- The Municipal Water and Wastewater Fund's annual audit report includes three major financial statements. These statements provide both long-term and short-term information about the Municipal Water and Wastewater Fund's overall status. Financial reporting at this level uses accrual basis accounting as in the private sector.

- The first of these statements is the Statement of Net Assets - Proprietary Fund. This is the Municipal Water and Wastewater Fund's statement of financial position presenting information that includes all of the Municipal Water and Wastewater Fund's assets and liabilities. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Municipal Water and Wastewater Fund as a whole is improving or deteriorating.

- The second statement is the Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund. This statement reports how the Municipal Water and Wastewater Fund's equity changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Fund is to show the effectiveness of Municipal Water and Wastewater Fund's rate structure and related revenues to adequately cover the operational costs of providing water services to the Municipal Water and Wastewater Fund's membership.

- The third major statement is the Statement of Cash Flows. This statement presents cash flows provided by operations, investing and financing on a net change basis.

REQUIRED FINANCIAL STATEMENTS

- The financial statements of the Municipal Water and Wastewater Fund's report information of the Municipal Water and Wastewater Fund using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Fund Net Assets - Proprietary Fund includes all of the Municipal Water and Wastewater Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Municipal Water and Wastewater Fund's creditors (liabilities). These also provide the basis for evaluating the capital structure of the Municipal Water and Wastewater Fund and assessing the liquidity and financial flexibility of the Municipal Water and Wastewater Fund's fund.

- All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund. This statement measures the success of the Municipal Water and Wastewater Fund's operations and can be used to determine whether the Municipal Water and Wastewater Fund has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

- The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

FINANCIAL ANALYSIS OF THE MUNICIPAL WATER AND WASTEWATER FUND

- The Municipal Water and Wastewater Fund's net assets decreased due to an excess of operating expenses over revenue of $107,960. However, a significant portion of this is the depreciation deduction. The Municipal Water and Wastewater Fund had a positive cash flow from operations of $20,232. Total revenues were up from 2018 by $10,503. Total operating expenses up down in 2019. In 2019, $525,046 as compared to $482,099 in 2018.

NET ASSETS

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

Table A-1
The Water and Sewer Fund 's Net Assets
December 31, 2019 and 2018

	2019	2018
Current and other assets	$ 152,767	$ 181,300
Capital and non-current assets	1,245,937	1,294,438
Total assets	1,398,704	1,475,737
Current liabilities	77,643	(25,478)
Long-term liabilities	222,914	262,804
Total liabilities	300,557	237,326
Net assets	1,098,147	1,238,411
Invested in capital assets net of related debt	$ 510,898	$ 509,762
Temporarily restricted assets	441,955	450,805
Unrestricted assets	145,294	277,844
Total net assets	$1,098,147	$1,238,411

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

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

BUDGETARY HIGHLIGHTS

For 2019, the Municipal Water and Wastewater Fund's revenues were higher than budgeted estimates by over $11,935. Expenses were slightly higher than budget estimates. Total operating expenses were approximately $91,213 over budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

- Capital Assets

At the end of 2019, the Municipal Water and Wastewater Fund had invested $3,527,440 in a broad range of assets, including land, water distribution system, equipment and vehicles.

This was only a slight increase over 2018. Additional information regarding Capital Assets is available in the Notes to the Basic Financial Statements.

Wells	$ 10,122
Buildings and structures	84,261
Storage tanks	316,644
Vehicles	106,728
Office equipment	6,192
Land and land rights	66,220
Water and wastewater mains and lines	1,739,112
Equipment	296,027
Sewer expansion	957,544
Total property and equipment	3,582,850
Less accumulated depreciation	(2,799,158)
Property and equipment - net	$ 783,692

- Debt Administration

At the end of 2019, the Municipal Water and Wastewater Fund's long-term debt consisted of the following:

Total long-term debt	$ 266,262

More information about the Municipal Water and Wastewater Fund's debt is presented in the Notes to the Basic Financial Statements.

ECONOMIC FACTORS NEXT YEAR'S BUDGET AND RATES

Some of the notable accomplishments of the Municipal Water and Wastewater Fund for 2019 were as follows:

- The City of Cotter has installed 250 of 440 new water meters to date and passed a sewer flat rate increase of $6.48 per every 1,000 gallons of use per ARWA rate study.

- The City purchased a new utility truck, 2019 Ford F-250, in 2019. replacement of aged water lines and water tower maintenance.

- The City continues to set aside depreciable funds for future projects i.e.:, replacement of aged water lines and water tower maintenance as well as pursuing a Ductile Iron Phase II project for the current wet well improvement and renovation.

CONTACTING THE MUNICIPAL WATER AND WASTEWATER FUND'S FINANCIAL MANAGER

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

  Melissa Gray
  115 McLean Avenue
  P.O. Box 9
  Cotter, Arkansas 72626

  Phone number: (870) 435-6326

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2019

ASSETS

CURRENT ASSETS:		
Cash	$	97,512
Accounts receivable - consumers		31,379
Insurance claim receivable		0
Sales tax		0
Inventory - material sand supplies		23,877
Total current assets		152,767
RESTRICTED ASSETS:		
Escrow fund		9,655
Meter deposit fund		20,029
Waterline replacement		135,608
Capital improvements fund		113,441
Water improvement fund		181,004
WWTP construction fund		0
CGJSC ductile iron construction fund		2,509
Total restricted assets		462,245
PROPERTY, PLANT, AND EQUIPMENT		
Property, plant and equipment		3,582,850
Accumulated depreciation		(2,799,158)
Property, plant and equipment - net		783,692
Total assets		$1,398,704

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND

DECEMBER 31, 2019

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES - PAYABLE FROM CURRENT ASSETS:	
Accounts payable - trade	$ 2,597
Accounts payable - sanitation	4,876
Sales tax payable	0
Current maturities long-term debt	49,880
Total from current liabilities	57,353
CURRENT LIABILITIES - PAYABLE FROM RESTRICTED ASSETS:	
Meter deposits	20,290
Total from restricted assets	20,290
LONG-TERM LIABILITIES:	
ADFA loan (Note 3)	266,262
Note payable - equipment	6,532
Less current maturities	(49,880)
Total long-term liabilities - net	222,914
Total liabilities	300,557
NET ASSETS:	
Invested in capital assets, net of related debt	510,898
Temporarily restricted	441,955
Unrestricted	145,294
Total net assets	1,098,147
Total liabilities and net assets	$ 1,398,704

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

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

DECEMBER 31, 2019

OPERATING REVENUES:	
Water service	$ 209,791
Wastewater service fees	113,031
Penalties and service fees	6,598
SDWA fees	1,786
Tap-on fees	1,500
Permits	2,629
Sanitation billing fees	56,292
Street fund transfer	0
Interdepartmental transfers	0
Reimbursements	0
Sales tax	25,100
Miscellaneous income	359
Total operating revenues	417,086
OPERATING EXPENSES	
Advertising	374
Bad debts	0
Bank fees	346
Booster Pump	0
Chemical expense	1,010
Contract Labor	0
Depreciation expense	128,282
Dues and licenses	3,769
Fuel and oil	2,311
Fire Hydrants	850
Insurance - general	1,676
Insurance - health	11,189
Meeting and training	2,722
Miscellaneous	0
Office supplies and postage	4,308
Operating expense - WWTF	69,641
Operating expense - CSLC	52,234
Payroll taxes	6,886

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF REVENUES AND EXPENSES (Continued)

DECEMBER 31, 2019

Pension contribution		14,710
Permits		0
Professional fees		4,500
Refunds		1,255
Repairs and maintenance		4,054
Salaries and wages		96,704
Sales taxes		25,203
Sanitation		56,640
SDWA		1,855
Supplies and materials		7,169
Equipment purchase		0
Well chlorinator meter		0
Work Comp		1,516
Unemployment		1,206
Interdepartmental transfers		0
Travel		153
Uniforms		359
Utilities		24,123
Total operating expenses		525,046
Operating income (loss)	$	(107,960)
OTHER INCOME (EXPENSES):		
Interest income		7,824
Interest expense		(6,808)
ADFA fees		(2,757)
Transfer from general fund		79,571
Transfer to ductile iron		(6,619)
Total other income (expenses)		71,211
Net decrease in net assets		(36,749)
Net assets as of beginning of year		1,134,896
Net assets as of end of year	$	1,098,147

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

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

STATEMENT OF CASH FLOWS

DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) from operations	$	(107,960)
Depreciation expense		128,282
(Increase) decrease:		
Accounts receivable - customers		(2,715)
Inventory		(1,487)
Increase (decrease):		
Accounts payable - trade		309
Accounts payable - sanitation		194
Sales tax payable		0
Net cash flows from operations		16,623
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on long term debt		8,915
Principal payment on long term debt		(50,682)
Interest		(6,808)
Bond service fee		(2,757)
Net cash flows from capital financing activities		(51,332)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash used by decrease in restricted assets		8,850
Cash provided by general fund transfer		79,571
Ductile iron transfer		(6,619)
Net cash flows from non-capital financing activities		81,802
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income		7,824
Purchase of truck		(32,241)
Purchase of equipment		(6,329)
Purchase of truck (WWTF)		(8,915)
Purchase of meters		(40,166)
Net cash flows from investing activities		(79,827)
INCREASE (DECREASE) IN CASH		(32,734)
CASH - BEGINNING OF YEAR		130,246
CASH - END OF YEAR	$	97,512

The accompanying notes are an integral part of these statements.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY:

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

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

BASIS OF ACCOUNTING:

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

BUDGETS AND BUDGETARY ACCOUNTING:

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

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

APPLICATION OF RESTRICTED ASSETS:

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

APPLICATION OF RESTRICTED ASSETS (continued):

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

CASH AND CASH EQUIVALENTS:

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

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

Current cash	$ 97,512
Restricted cash	462,245
Total on deposit	559,757
Insured by the FDIC or collateralized by financial institution	559,757
Uninsured and uncollateralized	$ -

ACCOUNTS RECEIVABLE:

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORIES:

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

RESTRICTED ASSETS:

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

PROPERTY, PLANT AND EQUIPMENT:

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

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

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

CREDIT RISK:

The Fund has no formal policy on credit risk. The Fund has relied on the depository institutions to provide sufficient collateralization.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (continued):

	Capital assets, depreciated				
	Land rights	System & improve.	Machinery & equipment	Vehicles	Total
Balance, December 31, 2018	$ 66,220	$ 3,107,683	$ 255,723	$ 65,572	$ 3,495,198
Additions			46,496	41,156	87,652
Dispositions					-
Balance, December 31, 2019	66,220	3,107,683	302,219	106,728	0 3,582,850
Accumulated depreciation					
Balance, December 31, 2018	0	2,394,059	216,768	60,049	2,670,876
Increases		106,824	17,326	4,132	128,282
Decreases					-
Balance, December 31, 2019	0	2,500,883	234,094	64,181	0 2,799,158
Capital assets - net	$ 66,220	$ 606,800	$ 68,125	$ 42,547	# $ 783,692

Depreciation expense was $128,282 for the twelve months ended December 31, 2019.

Infrastructure (GASB 34)

Under the transition provisions of GASB 34, the City is not required to retroactively report major general infrastructure assets. There were no infrastructure additions to the water and wastewater system for the year ended December 31, 2019.

Intangible Assets

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS PAYABLE:

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

ESTIMATES:

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

NOTE 2: FUND REQUIREMENTS

Meter deposits are refundable customer deposits for which reserves in an amount sufficient to refund the deposits in total must be held. Meter deposits totaled $20,290, with reserve funds of $20,029 at December 31, 2019, a total of $261 less than the requirement.

NOTE 3: NOTES PAYABLE

The ADFA loan is for the sewer plant expansion. It was completed in 2005. No principal payments were required to be paid until completion. The note bears interest at 2.25% annum. The first principal payment begins in 2005. Semi-annual installments of $29,066 will consist of a 1% service fee on unpaid principal and interest at 2.25%.

Balance on December 31, 2019	$266,262
Note payable on December 31, 2019	$266,262
Less current portion	(49,880)
Total long-term debt	$216,381

NOTE 3: NOTES PAYABLE (CONTINUED)

Current maturities for the next five years are as follows:

Year	Principal	Interest
2020	$ 49,880	$ 5,713
2021	51,515	4,581
2022	53,203	3,413
2023	54,945	2,206
2024	56,719	960
2025-2029	-	-
	$ 266,262	$ 16,873

NOTE 4: JOINT VENTURE

The City of Cotter operates a wastewater treatment facility and a sewer line maintenance crew as a joint venture with the City of Gassville, Arkansas. Each city bears its share of operating revenues and debt expense in relation to its usage of the facility. These expenses are shown on the respective financial statements of each city. Each city also recognizes the assets and any liabilities on their respective financial statements. The books and records for operation are maintained at the City of Cotter offices. Each City's financial statements have been adjusted to reflect total cost of the project as a capitalized asset and has it's own ADFA loan as long-term debt. The City's share of year end cash balances and capital reserve savings respectively are treatment plant $12,190 and $19,529, line crew $7,817 and $6,311.

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

The City of Cotter is part of a joint venture with the City of Gassville. The Cities joined with each other to complete what is known as the Ductile Iron Project. This project accomplished a major repair to the sewer system operated jointly by both cities. The joint venture obtained a grant from the Arkansas Natural Resource Commission of $123,600 and a loan of $69, 010 (Cotter $24,153, Gassville $44,857) to complete the renovation. Each city is repaying its share of the loan at 2.75% interest over 10 years. In addition each city is required to be setting aside 6% of sewer fees annually until a reserve of $50,000 is acquired and held in account. As of December 31, 2019 the Cotter portion of the joint reserve account had a balance of $4,217. The Cotter portion of the outstanding loan balance as of December 31, 2019 was $14,026.

NOTE 5: NET ASSETS RESERVATION

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

Restricted cash account	$ 462,245
Meter deposit liability	(20,290)
Net assets - reserved	$ 441,955

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

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

Plan description:

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

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

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

Benefits:

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

1. At age sixty-five (65) with five (5) years of actual service,

2. At any age with twenty-eight (28) years of actual service, or

3. Under the non-contributory plan, at age fifty-five (55) with thirty-five (35) years of credited service.

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

Funding policy:

Contribution provisions applicable to the State, County, Municipal, and School Divisions are established by state law and may be amended only by the Arkansas General Assembly. The employer contribution rate for the Municipal Division non-contributory plan, as established by an actuarially determined reserve requirement for benefit payments, is six percent (6%) of covered employees' payroll.

The City of Cotter Municipal Water and Wastewater Fund's total required contribution for the year ended December 31, 2019, was $12,783 and included an allowable purchase for the years of service prior to Cotter's enrollment in the System in 1995. The required contributions for the year have been made.

Funding status and progress:

Per the most current APERS audit report, the excess of the accrued liabilitiy of the System over the actuarial value of assets, as adjusted to fair value based on the Entry Age Normal Cost Method, was $2.39 [dollars in billions] at December 31, 2019. Total actuarial accrued liabilities were $11.13 [dollars in billions], and total applicable assets at smoothed market related value were $8.74 [dollars in billions], at December 31, 2019. APERS does not conduct separate measurements for the separate divisions or employers of the System.

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

Funding status and progress (Continued):

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

NOTE 7: CITY OFFICIALS

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

McGeorge Caradine	Mayor	December 31, 2022
Andrea Kray	Recorder/Treasurer	December 31, 2020
Nathan Buck	Council 1-1	October 24, 2019 (Resigned)
Carolyn Gill	Council 1-1	December 31, 2020
Kerry Ann White	Council 1-2	December 31, 2020
Charles Sugg	Council 2-1	December 31, 2020
John Bell	Council 2-2	December 31, 2020
Wayne Alexander	Council 3-1	February 28, 2019 (Resigned)
Mertice Kray	Council 3-1	December 31, 2020
Cameron Ross	Council 3-2	December 31, 2020

NOTE 8: INSURANCE COVERAGE

Insurance coverage for the year ended December 31, 2019, is as follows:

Facility	Insurer	Policy Date	Coverage
contents, tanks, and pumps	Municipal League	11/4/2019	$504,000
Vehicles and backhoe	Municipal League	11/4/2019	$141,282

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

NOTE 6: SUBSEQUENT EVENTS REVIEW

Subsequent events were evaluated by management through June 30, 2020. This is the first date the financial statements were available for issuance.

NOTE 7: SUMMARY OF ASSETS WHOSE USE IS LIMITED

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

	Cash	Certificates of deposits	TOTAL 2019
Escrow fund	$ 9,655	$ -	$ 9,655
Meter deposit fund	20,029	0	20,029
Waterline replacement	135,608	0	135,608
Capital improvement fund	0	113,441	113,441
WWTP construction fund	0	0	-
CGJSC ductile iron construction fund	2,509	0	2,509
	$ 167,800	$ 113,441	$ 281,241

NOTE 8: ENTERPRISE FUND

The Municipal Water and Wastewater Fund is used to account for the operations of the Water and Sewer Utility 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 or services to the general public on a continuing basis be financed or recovered primarily through user charges.

SUPPLEMENTARY INFORMATION

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLIMENTARY INFORMATION

DECEMBER 31, 2019

WATER BUDGET

ACCOUNT	Actual	%	Final Budget	%	Variance over (under)	Original Budget
Income						
Water service	$ 209,791	49.37%	$ 201,300	50.29%	$ 8,491	$ 201,300
Wastewater service fees	113,031	26.60%	101,800	25.43%	11,231	101,800
Penalties and service fees	6,598	1.55%	7,080	1.77%	(482)	7,080
SDWA fees	1,786	0.42%	1,615	0.40%	171	1,615
Tap-on fees	1,500	0.35%	1,000	0.25%	500	1,000
Permits	2,629	0.62%	3,600	0.90%	(971)	3,600
Sanitation billing fees	56,292	13.25%	57,300	14.31%	(1,008)	57,300
Sales taxes	25,100	5.91%	25,371	6.34%	(271)	25,371
Special tax	0	0.00%	0	0.00%	0	-
Interest	7,824	1.84%	1,215	0.30%	6,609	1,215
NSF Charge	0	0.00%	0	0.00%	0	-
Interdepartmental transfers	0	0.00%	0	0.00%	0	-
ML Property Program Settlement	0	0.00%	0	0.00%	0	-
Miscellaneous income	359	0.08%	0	0.00%	359	-
Total income	$ 424,910	100.00%	$ 400,281	100.00%	$ 24,629	$ 400,281
Expenses						
Advertising	$ 374	0.07%	$ 250	0.06%	$ 124	$ 250
Audit fees	4,500	0.86%	4,500	1.12%	0	4,500
Bad debts	0	0.00%	0	0.00%	0	0
Bank fees	346	0.07%	276	0.07%	70	276
Booster pump	0	0.00%	0	0.00%	0	0
Depreciation expense	128,282	24.43%	0	0.00%	128,282	0
Dues and memberships	3,613	0.69%	1,970	0.49%	1,643	1,970
Equipment purchase	0	0.00%	0	0.00%	0	0
Insurance - general	1,676	0.32%	1,437	0.36%	239	1,437
Insurance - health	11,189	2.13%	13,227	3.28%	(2,038)	13,227
Miscellaneous expense	0	0.00%	0	0.00%	0	0
Office expense	0	0.00%	0	0.00%	0	0
Office supplies and postage	4,308	0.82%	4,000	0.99%	308	4,000
Refunds	1,255	0.24%	0	0.00%	1,255	0
Repairs and maintenance	4,055	0.77%	10,500	2.61%	(6,445)	10,500

See note to Required Supplementary Information on page 27.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019

WATER BUDGET (CONTINUED)

Salaries and wages	96,704	18.42%	89,477	22.21%	7,227	89,477
Payroll taxes	6,886	1.31%	6,845	1.70%	41	6,845
Pension contribution	14,710	2.80%	12,825	3.18%	1,885	12,825
Sales taxes	25,203	4.80%	25,371	6.30%	(168)	25,371
Supplies and materials	7,169	1.37%	13,900	3.45%	(6,731)	13,900
Travel and mileage reimbursements	153	0.03%	0	0.00%	153	0
Uniforms	359	0.07%	750	0.19%	(391)	750
Utilities	20,587	3.92%	18,800	4.67%	1,787	18,800
Sanitation	56,640	10.79%	56,185	13.94%	455	56,185
Building permits	0	0.00%	0	0.00%	0	0
Chemical expense	1,010	0.19%	850	0.21%	160	850
CSLC	52,234	9.95%	52,106	12.93%	128	52,106
Contract labor	0	0.00%	0	0.00%	0	0
Fuel - Oil	2,311	0.44%	2,300	0.57%	11	2,300
License fees	156	0.03%	260	0.06%	(104)	260
Meeting/training	2,722	0.52%	2,575	0.64%	147	2,575
SDWA	1,855	0.35%	1,615	0.40%	240	1,615
Telephone	3,535	0.67%	2,140	0.53%	1,395	2,140
Unemployment	1,206	0.23%	897	0.22%	309	897
Workers compensation	1,516	0.29%	1,218	0.30%	298	1,218
WWTF	69,641	13.26%	68,084	16.90%	1,557	68,084
Lift station	0	0.00%	900	0.22%	(900)	900
Waterline replacements	0	0.00%	3,000	0.74%	(3,000)	3,000
Legal fees	0	0.00%	1,000	0.25%	(1,000)	1,000
Fire Hydrants	850	0.16%	5,700	1.41%	(4,850)	5,700
Prevention & safety	0	0.00%	0	0.00%	0	0
ADFA Service fees	0	0.00%	0	0.00%	0	0
Interest expense	0	0.00%	0	0.00%	0	0
Interdepartmental transfers	0	0.00%	0	0.00%	0	0
Total	$ 525,046	100.00%	$ 402,958	100.00%	$ 122,088	$ 270,476

See note to Required Supplementary Information on page 27.

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

WATER AND WASTEWATER RATES

DECMEBER 31, 2019

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

The rate structure in use at December 31, 2019, is as follows:

Water Rate Schedule

District 1	Flat rate and per thousand gallons
1,000 gallons - minimum	$ 16.07 flat rate
2,000 gallons	23.06 rate
4,000 gallons	37.04 rate
5,000 gallons	44.03 rate
10,000 gallons	78.98 M
15,000 gallons	113.93 M
20,000 gallons	148.88 M
30,000 gallons	218.78 M
40,000 gallons	288.68 M

Wastewater Rate Schedule

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

Non-Water Customers

One person household - minimum	$ 12.13 flat rate

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

USERS BY CLASS

DECEMBER 31, 2019

Customer category (usage in gallons)	Customer Count			
	Water Only	Wastewater Only	Water and Wastewater	Total
< 2,000	15	1	128	144
2,000 - 50,000	13	0	326	339
> 50,000	0	0	6	6
	28	1	460	489

ADDITIONAL INFORMATION

Water loss figures for the year ended December 31, 2019 are as follows:

	2019
Gallons of water billed	21,368,800
Gallons of water pumped	39,028,000
Gallons of water lost	17,659,200

Note: Required Supplementary Information - Budget Reconciliation

The difference between legally adopted expenditures for the Water and Wastewater budgets and generally accepted principles figures are as follows:
(Capitalization of asset expenditures and nonrevenue treatment of loan proceeds.)

Expenditures	Water
Legal budget	$ 402,958
Capital expense & Depreciation	128,282
GAAP	$ 274,676

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

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City of Cotter Municipal Water and Wastewater Fund, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Cotter Municipal Water and Wastewater Fund's basic financial statements and have issued my report thereon dated June 30, 2020.

Internal control over financial reporting

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

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

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

Compliance and Other Matters

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

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

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

Prior year findings

City of Cotter Municipal Water and Wastewater Fund's findings and response to the prior year findings are also presented in the schedule of findings. The response was not subject to the audit procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Purpose of this Report

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

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

June 30, 2020

CITY OF COTTER
MUNICIPAL WATER AND WASTEWATER FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2019

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Cotter Municipal Water and Wastewater Fund.

2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the report on compliance and internal control. The staff is not trained to draft financial statements and footnotes. The conditions reported are not a material weakness.

FINDINGS - FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCES:

1. Segregation of duties:

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

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

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