

CITY OF COTTER, ARKANSAS
AUDITED SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2024



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INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and City Council
City of Cotter, Arkansas
Cotter, Arkansas**

Report on the Audit of the Schedule of Expenditures of Federal Awards

Opinion

We have audited the schedule of expenditures of Federal awards of the **City of Cotter, Arkansas** for the year ended **December 31, 2024**, and the related notes (the schedule).

In our opinion, the accompanying schedule of expenditures of federal awards presents fairly, in all material respects, the expenditures of federal awards of the **City of Cotter, Arkansas** for the year ended **December 31, 2024**, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of the **City of Cotter, Arkansas** 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 opinion.

Responsibilities of Management for the Schedule

Management is responsible for the preparation and fair presentation of the schedule 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 the schedule that is free from material misstatement, whether due to fraud or error.

Member of:

*American Institute of Certified Public Accountants
*Governmental Audit Quality Center

*Arkansas Society of Certified Public Accountants

*Oklahoma Society of Certified Public Accountants

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance 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 schedule.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule, 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 schedule.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the **City of Cotter, Arkansas'** 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 schedule.

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.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

May 5, 2025

CITY OF COTTER, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2024

Federal Grantor/Pass-through Grantor(s)/ Program or Cluster Title	Federal Assistance Listing Number	Provided to Subrecipients	Amount Expended
Federal Awards			
U.S. Department of the Treasury			
<i>Passed through the State of Arkansas:</i>			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	\$ -	\$ 196,822
Total U.S. Department of the Treasury		<u>-</u>	<u>196,822</u>
United States Department of Agriculture			
<i>Direct award:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	-	2,690,390
Total United States Department of Agriculture		<u>-</u>	<u>2,690,390</u>
Total Federal Awards		<u>\$ -</u>	<u>\$ 2,887,212</u>

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of the City of Cotter, Arkansas (the City) under programs of the Federal government for the year ended December 31, 2024. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows, where applicable of the City.

Note 2: Summary of Significant Accounting Policies

The Schedule includes the Federal program activity of the City and is presented on the accrual basis of accounting and include all applicable Federal awards received and expended during the year. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The City does not charge indirect cost rates and charges 100% of their costs directly.

Note 4: Federal Loans

The City was approved by the United States Department of Agriculture to receive loans totaling \$3,747,000 on a reimbursement basis. The balance at the end of the year ended December 31, 2024 was \$2,807,094

Balance, 12/31/2023	\$ 264,227
Draws	2,613,154
Principal paid	<u>70,287</u>
Balance, 12/31/2024	<u>\$ 2,807,094</u>

Note 5: Compliance with Program Requirements

Expenditures related to Water and Waste Disposal Systems for Rural Communities program are reported in compliance with the specific requirements outlined in the United States Department of Agriculture regulations governing the program.

Note 6: Assistance Listing Number (ALN)

The program title and ALN number was obtained from the Federal or pass-through grantor or the sam.gov website.

See Independent Auditor's Report.

OTHER REQUIRED REPORT

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

**To the Honorable Mayor and City Council
City of Cotter, Arkansas
Cotter, Arkansas**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **City of Cotter, Arkansas'** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the **City of Cotter, Arkansas'** major federal programs for the year ended **December 31, 2024**. The **City of Cotter, Arkansas'** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the **City of Cotter, Arkansas** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended **December 31, 2024**.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the **City of Cotter, Arkansas** and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the **City of Cotter, Arkansas'** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the **City of Cotter, Arkansas'** federal programs.

Member of:

*American Institute of Certified Public Accountants
*Governmental Audit Quality Center

*Arkansas Society of Certified Public Accountants

*Oklahoma Society of Certified Public Accountants

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the **City of Cotter, Arkansas'** compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about **City of Cotter, Arkansas'** compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 **City of Cotter, Arkansas'** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the **City of Cotter, Arkansas'** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the **City of Cotter, Arkansas'** internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-01 and 2024-02 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the **City of Cotter, Arkansas'** response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The **City of Cotter, Arkansas'** response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

May 5, 2025

**CITY OF COTTER, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2024**

I. Summary of Independent Auditor's Results

Financial Statements

Type of report issued: The auditor's report for the financial statements for the year ended December 31, 2024 is not yet available as of the date of this report.

Internal control over financial reporting:

Control deficiencies identified? The auditor's report on internal control over financial reporting and on compliance and other matter based on an audit of financial statements in accordance with *Government Auditing Standards* for the year ended December 31, 2024 is not yet available of the date of this report.

Material noncompliance: The auditor's report on internal control over financial reporting and on compliance and other matter based on an audit of financial statements in accordance with *Government Auditing Standards* for the year ended December 31, 2024 is not yet available of the date of this report.

Federal Awards

Internal control over major programs:

Material weakness identified? See findings 2024-01 and 2024-02

Significant deficiencies identified that are not considered to be material weakness? None reported

Type of report issued on major programs: Unmodified Opinion

Any audit finding disclosed that are required to be reported in accordance with the Uniform Guidance? No

Major programs identified:

AL Number (s)	Name of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold to distinguish between Type A and Type B programs: \$750,000

Statement of Risk of the Auditee High Risk

**CITY OF COTTER, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2024**

II. Findings and Questioned Costs for Federal Awards

2024-01: Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the City's assets and ensure accurate financial reporting.

Condition: The City has a limited number of employees which effectively preclude an adequate segregation of duties relating to the recording, processing, reconciling and reporting of cash and other transactions in the accounting records, as well as the safeguarding of assets.

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Context: An understanding of the five components of internal control sufficient the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend management should consider a formal evaluation of their risks associated with this lack of duties segregation. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts.

Responsible Official's Response: Management concurs with the recommendation.

CITY OF COTTER, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2024

2024-02: Internal Control over Financial Reporting - Financial Statements

Criteria: The City's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the City's annual financial statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing and summarizing accounting data and (2) reporting governmental financial statements, including the related footnotes. Professional audit standards clearly state that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied extensively on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause: The City lacks the necessary knowledge, expertise and education relative to preparing GAAP financial statements. As a result, management has elected to use outside assistance from the external auditors to assist in meeting its responsibilities relative to preparing its annual financial statements.

Context: An understanding of the five components of internal control sufficient the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of performing part of management's functions.

Recommendation: We recommend that the City consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with GAAP without reliance on the external financial auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: Management concurs with the recommendation.