

**PHILLIPS COUNTY  
SEWER FACILITIES BOARD  
PHILLIPS COUNTY, ARKANSAS  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**MEYER & WARD, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
P.O. BOX 1045  
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PHILLIPS COUNTY SEWER FACILITIES BOARD  
PHILLIPS COUNTY, ARKANSAS

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**MEYER & WARD, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**P.O. BOX 1045**  
**WYNNE, ARKANSAS 72396**

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the Phillips County Sewer Facilities Board  
Phillips County, Arkansas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Phillips County Sewer Facilities Board, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Board'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 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***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we 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, we express no such opinion. An audit also 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the Phillips County Sewer Facilities Board as of September 30, 2020, 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.

***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 on pages 3-5 and 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

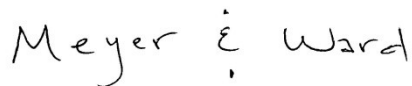
#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Phillips County Sewer Facilities Board's basic financial statements. The schedule of sewer rates on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of sewer rates is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of sewer rates is fairly stated in all material respects in relation to the 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 February 10, 2023, on our consideration of the Phillips County Sewer Facilities Board'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 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 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 Phillips County Sewer Facilities Board's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Meyer & Ward". The signature is written in a cursive, slightly stylized font.

Meyer & Ward, P.A.  
Certified Public Accountants  
Wynne, Arkansas 72396

February 10, 2023

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2020**

Within this section of the Phillips County Sewer Facilities Board's financial report, the Entity's management provides narrative discussion and analysis of the financial activities of the Entity for the year ended September 30, 2020. The Entity's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

**Using this annual report**

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Entity as a whole and present a longer term view of the Entity's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

**Reporting on Phillips County Sewer Facilities Board as a whole**

Our analysis of the Entity as a whole follows in the next section. The Entity operates as a business-type activity providing sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Entity's finances is: "Is the Entity as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Entity as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Entity's net position and changes in them. You can think of the Entity's net position (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources) as one way to measure the Entity's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving, or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the sewer system, to assess the overall health of the Entity.

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)  
September 30, 2020**

**Financial Highlights:**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning Net Position	\$ 5,491,395	\$ 5,711,319	\$ 5,901,710
Increase (Decrease) in Net Position	(217,502)	(219,924)	(190,391)
Ending Net Position	<u>\$ 5,273,893</u>	<u>\$ 5,491,395</u>	<u>\$ 5,711,319</u>

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current Assets	\$ 43,025	\$ 82,486	\$ 123,704
Restricted Assets	7,907	7,848	7,797
Capital Assets	<u>6,301,235</u>	<u>6,515,041</u>	<u>6,729,669</u>
Total Assets	<u>6,352,167</u>	<u>6,605,375</u>	<u>6,861,170</u>
Current Liabilities	42,646	45,307	47,808
Long-Term Liabilities	<u>1,035,628</u>	<u>1,068,673</u>	<u>1,102,043</u>
Total Liabilities	<u>1,078,274</u>	<u>1,113,980</u>	<u>1,149,851</u>
Net Position:			
Net Investments in capital assets	5,232,569	5,412,991	5,595,250
Restricted for debt service	7,907	7,848	7,797
Unrestricted	<u>33,417</u>	<u>70,556</u>	<u>108,272</u>
Total Net Position	<u>\$ 5,273,893</u>	<u>\$ 5,491,395</u>	<u>\$ 5,711,319</u>

The following schedule presents a summary of revenues and expenses for the years ended September 30, 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues	\$ 208,185	\$ 210,738	\$ 222,337
Operating Expenses	<u>397,384</u>	<u>401,397</u>	<u>382,449</u>
Operating Income	(189,199)	(190,659)	(160,112)
Other Income (Expenses)	<u>(28,303)</u>	<u>(29,265)</u>	<u>(30,279)</u>
Change in Net Position	<u>\$ (217,502)</u>	<u>\$ (219,924)</u>	<u>\$ (190,391)</u>

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)  
September 30, 2020**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At year end September 30, 2020, the Entity had \$ 6,301,235 invested in capital assets. This represents a net decrease of \$ 213,806, which is the result of depreciation expense recognized of \$ 213,806.

**Debt:**

At year end, the Entity had \$ 1,068,666 in outstanding notes payable. This represents a decrease of \$ 33,384 which is the result of scheduled debt payments.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Entity finished construction of additional sewage lines and infrastructure that allowed the entity to service more customers.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact John C. Edwards, Phillips County Sewer Facilities Board Member and Executive Director at 501-680-5248. Edwards was appointed as Executive Director on April 19, 2023 and a new board was appointed by Phillips County Judge Clark Hall in March/April 2023.

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2020**

**ASSETS**

Current Assets

Cash	\$ 29,594
Accounts Receivable	<u>13,431</u>
Total Current Assets	<u>43,025</u>

Restricted Assets

Certificate of Deposit	<u>7,907</u>
Total Restricted Assets	<u>7,907</u>

Property, Plant and Equipment

Land	2,700
Equipment	7,500
Service Lines	<u>8,566,000</u>
	8,576,200
Less Accumulated Depreciation	<u>(2,274,965)</u>
Net Property, Plant and Equipment	<u>6,301,235</u>

Total Assets

\$ 6,352,167

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



**PHILLIPS COUNTY SEWER FACILITIES BOARD  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

**LIABILITIES AND NET POSITION**

Current Liabilities		.
Accounts Payable	\$ 2,557	
Accrued Interest Payable	5,551	
Current Maturities of Long term Debt	34,538	
	<u>42,646</u>	.
Payable From Restricted Assets		
Customer Meter Deposits	<u>1,500</u>	.
Long- Term Debt, less current portion	<u>1,034,128</u>	.
Total Liabilities	<u>1,078,274</u>	.
Net Position		
Net investment in capital assets	5,232,569	
Restricted for debt service	7,907	
Unrestricted	<u>33,417</u>	.
Total Net Position	<u>5,273,893</u>	.
Total Liabilities and Net Position	<u>\$ 6,352,167</u>	.

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

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Operating Revenues	
Sewer Sales	\$ 206,685
Tap Fees	1,500
Other Income	-
Total Operating Revenues	<u>208,185</u>
Operating Expenses	
Depreciation Expense	213,806
Accounting Fees	1,715
Contract Labor	37,324
Dues & Subscriptions	661
Insurance Expense	4,286
Sewer Treatment Expense	56,072
Miscellaneous Expense	154
Professional Fees	4,350
Repairs & Maintenance	43,777
Utilities & Telephone	35,239
Total Operating Expense	<u>397,384</u>
OPERATING INCOME (LOSS)	<u>(189,199)</u>
Non-operating Revenues (Expenses)	
Interest Income	128
Interest Expense	(28,431)
Total Non-operating Revenues (Expenses)	<u>(28,303)</u>
Change in Net Position	<u>(217,502)</u>
Beginning Net Position	<u>5,491,395</u>
Ending Net Position	<u><u>\$ 5,273,893</u></u>

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

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Cash Flows From Operating Activities	
Receipts from customers	\$ 209,659
Payments to suppliers and others	<u>(185,443)</u>
Net cash provided by operating activities	<u>24,216</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on capital debt	(33,384)
Interest paid on capital debt	<u>(28,888)</u>
Net cash provided (used) by capital and related financing activities	<u>(62,272)</u>
Cash Flows From Investing Activities	
Interest income	128
Certificates of deposit (purchases) maturities	<u>(59)</u>
Net cash provided (used) by investing activities	<u>69</u>
Increase (Decrease) in cash and cash equivalents	(37,987)
Cash and cash equivalents, beginning of year	<u>67,581</u>
Cash and cash equivalents, end of year	<u><u>\$ 29,594</u></u>
Reconciliation of operating income to net cash provided by operating activities	
Operating Income (Loss)	\$ (189,199)
Depreciation	213,806
(Increase) decrease in accounts receivable	1,474
Increase (decrease) in accounts payable	<u>(1,865)</u>
Net cash provided by operating activities	<u><u>\$ 24,216</u></u>

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

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Financial Reporting Entity – Phillips County Sewer Facilities Board is a Public Facilities Board created by ordinance of Phillips County, Arkansas. The accompanying financial statements present only the Phillips County Sewer Facilities Board and do not include all funds, account groups, and programs controlled by Phillips County, Arkansas. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit. The Sewer Facilities Board serves the rural residents of the surrounding area.

Basis of Accounting – The Phillips County Sewer Facilities Board uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents – The Phillips County Sewer Facilities Board considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted are excluded from Cash Equivalents.

Accounts Receivable - Accounts receivable arise from sales of sewer services to local customers. Accounts receivable are presented at estimated net realizable value. The direct charge-off method is used to record bad debt expense. No material difference results from use of the direct charge-off method rather than the allowance method as required by generally accepted accounting principles. All bad debts have been netted against revenues.

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**NOTE A- ORGANIZATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES (CONT'D)**

Property and Equipment – Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 5 years for equipment to 40 years for the sewer system.

Restricted Assets - The Phillips County Sewer Facilities Board is required under the terms of various bond ordinances to establish and maintain prescribed cash balances that can only be used for specific purposes.

Credit Risk - Financial instruments which potentially subject the Facilities Board to concentrations of credit risk consist principally of temporary cash investments. The Facilities Board places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit exposure to any one financial institution. The Facilities Board's policy is to limit such investments to amounts covered by FDIC coverage, and securities pledged to collateralize deposits.

Net Position - Net position is divided into three components:

Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted – amounts that are restricted by the Facilities Board's creditors, (for example, debt covenants), by laws and regulations of other governments, or by other contributors.

Unrestricted – all other net position is reported in this category.

Operating Revenues and Expenses- Operating revenues and expenses of the Facilities Board consist of charges for services, and the costs of providing those services, excluding interest costs.

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS**

The entity's policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The entity's deposits are categorized to give an indication of the level of risk assumed by the entity. The categories are described as follows:

Category 1- Insured or collateralized by the entity or by its agent in the entity's name.

Category 2- Collateralized with securities held by the pledging financial institution's trust Facilities Board or by its agent in the entity's name.

Category 3- Uncollateralized.

At September 30, 2020, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
<u>\$ 37,501</u>	<u>\$ 37,501</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE C- PROPERTY AND EQUIPMENT**

A summary of property, plant and equipment, and accumulated depreciation for the entity is presented below:

	9/30/2019	Additions	Deletions	9/30/2020
Assets Not Subject to Depreciation:				
Land	\$ 2,700			\$ 2,700
Assets Subject to Depreciation:				
Equipment	7,500	-	-	7,500
Service Lines	8,566,000	-	-	8,566,000
	<u>8,576,200</u>	<u>-</u>	<u>-</u>	<u>8,576,200</u>
Accumulated Depreciation	(2,061,159)	(213,806)		(2,274,965)
Net Property, Plant and Equipment	<u>\$ 6,515,041</u>	<u>\$ (213,806)</u>	<u>\$ -</u>	<u>\$ 6,301,235</u>

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020**

**NOTE D – ACCUMULATED DEPRECIATION**

At September 30, 2020, accumulated depreciation balances by type of property, plant, and equipment are as follows:

Equipment	\$ 7,500
Service Lines	<u>2,267,465</u>
	<u><u>\$ 2,274,965</u></u>

**NOTE E - LONG TERM LIABILITIES**

The following is a summary of the Phillips County Sewer Facilities Board's Long-term Liabilities at September 30, 2020:

4.5% Note Payable to USDA Rural Development due in monthly installments of \$601 through 2041, secured by pledge of future revenues	\$ 97,702
5% Note Payable to Arkansas Natural Resource Commission, due in annual installments of \$19,527 through 2029, secured by pledge of future revenues	138,799
2% Bond Payable to USDA, due in monthly installments of \$2,962 beginning July 2014 through 2052, secured by pledge of future revenues	<u>832,165</u>
	\$ 1,068,666
Less Current Maturities	<u>(34,538)</u>
	<u><u>\$ 1,034,128</u></u>

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**NOTE E - LONG TERM LIABILITIES (cont'd):**

A summary of future payments required at September 30, 2020 is as follows:

For the years ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 34,538	\$ 27,746	\$ 62,284
2022	35,684	26,600	62,284
2023	36,876	25,408	62,284
2024	38,061	24,223	62,284
2025	39,402	22,882	62,284
For the five year periods ending September 30,			
2030	198,645	93,244	291,889
2035	145,898	67,882	213,780
2040	164,833	48,947	213,780
2045	154,783	29,815	184,598
2050	163,628	14,092	177,720
2055	56,318	960	57,278
	<u>\$ 1,068,666</u>	<u>\$ 381,799</u>	<u>\$ 1,450,465</u>

A summary of Long-term debt activity is as follows:

<u>Balance 9/30/2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/2020</u>
<u>\$ 1,102,050</u>	<u>\$ -</u>	<u>\$ (33,384)</u>	<u>\$ 1,068,666</u>



**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020**

**NOTE F – RESTRICTED ASSETS**

Certain certificates of deposit and escrow accounts have been established pursuant to agreements with the U.S. Dept. of Rural Development and the Arkansas Development Finance Authority. These accounts are to maintain monthly transfers as defined by loan agreements and are restricted for retirement of long-term debt, and repairs.

Restricted Accounts at September 30, 2020 consists of:

Certificate of Deposit	\$ 7,907
	<u>7,907</u>

**NOTE G – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 10, 2023, the date of this report. No items noted which would require disclosure.

**NOTE H - CONCENTRATION**

Revenues:

Revenues earned are from the provision of sewer services to local residents.

Cash:

Cash balances are collateralized by FDIC coverage.

**MEYER & WARD, P.A.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**P.O. BOX 1045**  
**WYNNE, ARKANSAS 72396**

**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 Members of the Facilities Board  
Phillips County, 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 governmental activities and the business-type activities of the Phillips County Sewer Facilities Board, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Phillips County Sewer Facilities Board's basic financial statements and have issued our report thereon dated February 10, 2023.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Phillips County Sewer Facilities Board's internal control over financial reporting (internal control) to determine the 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 Phillips County Sewer Facilities Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Phillips County Sewer Facilities Board'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies. See finding # 20-001 and #20-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Phillips County Sewer Facilities Board'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance required to be reported under *Government Auditing Standards*. See # 20-003.

### **Phillips County Sewer Facilities Board's Response to Findings**

Phillips County Sewer Facilities Board's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Phillips County Sewer Facilities Board's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 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.

Meyer & Ward

Meyer & Ward, P.A.  
Certified Public Accountants  
Wynne, Arkansas 72396

February 10, 2023

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
SUMMARY OF PRIOR AUDIT FINDINGS  
SEPTEMBER 30, 2020**

Internal Control Findings – Financial Statement Audit

Prior year finding #19-001 Segregation of Duties has been repeated as a current year finding.

Internal Control Findings – Compliance – Financial Statement Audit

Prior year finding #19-002 Depreciation Reserve Fund has been repeated as a current year finding.

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2020**

Internal Control Findings – Financial Statement Audit

# 20-001 Segregation of duties

**CONDITION:** The Phillips County Sewer Facilities Board does not have enough employees for the appropriate segregation of duties necessary for effective internal control.

**CRITERIA:** Segregation of duties provides for independent review and approval of all transactions at various stages of the transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

**EFFECT:** Inadequate segregation of duties reduces the Entity's internal control over financial reporting, processing of transactions, and safeguarding of assets.

**RECOMMENDATION:** The Entity's management should review all transactions, and accounting records, and reconciliations, in order to compensate for the limited number of employees. Such review should be performed at least monthly and documented.

**RESPONSE:** Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records reviewed monthly by the board.

# 20-002 – Lack of Documentation

**CONDITION:** The Entity did not provide supporting documentation for some of the cash disbursements which were selected for audit testing.

**EFFECT:** If adequate documentation is not maintained, the Entity may have difficulty proving that expenditures are legal, proper, and fiscally responsible.

**CRITERIA –** The Entity should maintain supporting documentation, including vendor invoice, receipts etc. to document that each disbursement is for an appropriate purpose.

**RECOMMENDATION:** The Entity should maintain a file for each month, that includes supporting documentation for each cash disbursement.

**RESPONSE:** Management concurs

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2020**

Compliance Findings –

#20-003 Findings – Compliance

USDA,  
Water and Waste Disposal Systems for Rural Communities

Condition – Restricted Accounts were not established and maintained as required by terms of the loan agreements.

Criteria – The loan agreements with USDA and NRCS require that debt service and depreciation reserve accounts be established and maintained.

Recommendation – Depreciation reserve accounts for the NRCS and USDA loans should be established and funded according to terms of the loan agreements. An additional debt service reserve should also be established for the 2014 bond issue.

Management response – We concur with this recommendation, and will establish and maintain the required accounts.

**PHILLIPS COUNTY SEWER FACILITIES BOARD**  
**BUDGETARY COMPARISON SCHEDULE**  
**SEPTEMBER 30, 2020**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
OPERATING REVENUES:			
Sewer Fees	\$ 206,685	\$ 202,300	\$ 4,385
Tap Fees and Misc Revenues	<u>1,500</u>	<u>890</u>	<u>610</u>
Total Operating Revenues	<u>208,185</u>	<u>203,190</u>	<u>4,995</u>
OPERATING EXPENSES:			
Depreciation Expense	213,806	-	213,806
Accounting Fees	1,715	-	1,715
Contract Labor	37,324	39,000	(1,676)
Dues & Subscriptions	661	-	661
Insurance Expense	4,286	4,185	101
Sewer Treatment Expense	56,072	52,594	3,478
Miscellaneous Expense	154	-	154
Professional Fees	4,350		4,350
Repairs & Maintenance	43,777	15,400	28,377
Utilities & Telephone	<u>35,239</u>	<u>23,600</u>	<u>11,639</u>
Total Operating Expenses	<u>397,384</u>	<u>134,779</u>	<u>262,605</u>
Income (Loss) from Operations	<u>(189,199)</u>	<u>68,411</u>	<u>(257,610)</u>
Non-operating Revenues (Expenses)			
Interest Income	128	220	(92)
Interest Expense	<u>(28,431)</u>	<u>(7,212)</u>	<u>(21,219)</u>
Total Non-operating Revenues (Expenses)	<u>(28,303)</u>	<u>(6,992)</u>	<u>(21,311)</u>
Change in Net Position	<u>\$ (217,502)</u>	<u>\$ 61,419</u>	<u>\$ (278,921)</u>

**PHILLIPS COUNTY SEWER FACILITIES BOARD  
SCHEDULE OF SEWER RATES  
SEPTEMBER 30, 2020**

For all users:	<u>Sewer</u>	
First 1,000 gallons or any portion thereof	\$17.00	minimum
next 8,000 gallons after or any portion thereof	\$2.20	per thousand
next 11,000 gallons after or any portion thereof	\$2.20	per thousand
over 20,000 gallons	\$2.20	per thousand
Tap fee:		
4" tap - normal residential and small commercial	\$500.00	
6" tap - industrial	fee determined by board	