

STAMPS WATER WORKS



STAMPS, ARKANSAS

DECEMBER 31, 2019

STAMPS WATER WORKS
STAMPS, ARKANSAS

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TURNER, RODGERS, MANNING & PLYLER, PLLC
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the City Council
Stamps, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Stamps Water Works of the City of Stamps, Arkansas, as of and for the year ended December 31, 2019 and 2018, and the related notes to the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stamps Water Works of the City of Stamps, Arkansas, as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Stamps Water Works which is an enterprise fund of the City of Stamps, Arkansas and are not intended to present fairly the financial position of the City of Stamps, Arkansas, and the results of its operations and cash flows of its other proprietary fund types and non-expendable trust funds in conformity with generally accepted accounting principles.

Other Matters*Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedule on page 21 and the Required Supplemental Information for Cost-Sharing Plans on page 22 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 an opinion on the financial statements as a whole. The Schedule of Restricted Assets on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Schedules of Restricted Assets and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 Schedules of Restricted Assets and the Schedule of Expenditures of Federal Awards are 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*, we have also issued our report dated December 10, 2021, on our consideration of Stamps Water Works of the City of Stamps, Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Stamps Water Works' 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 Stamps Water Works' internal control over financial reporting and compliance.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

December 10, 2021

STAMPS WATER WORKS
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

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ASSETS

	2019	2018
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 388,855	\$ 360,488
Certificate of Deposit	56,687	56,320
Accounts Receivable - Customers	49,917	46,985
Unbilled Revenue	25,190	20,592
Accounts Receivable - Other	7	1,986
Accrued Interest Receivable	12	71
Prepaid Insurance	7,348	6,093
TOTAL CURRENT ASSETS	<u>528,016</u>	<u>492,535</u>
 TOTAL RESTRICTED ASSETS (Schedule I)	 <u>153,503</u>	 <u>130,698</u>
 PLANT AND EQUIPMENT:		
Land - Water	14,163	14,163
Land - Sewer	22,902	22,902
Equipment - Water	307,813	307,813
Equipment - Sewer	131,435	131,435
System - Water	2,045,228	2,045,228
System - Sewer	3,402,298	3,402,298
Office Furniture and Equipment	13,011	13,011
Construction in Progress	2,559,387	1,775,421
	<u>8,496,237</u>	<u>7,712,271</u>
Less: Accumulated Depreciation	<u>(3,710,515)</u>	<u>(3,593,666)</u>
TOTAL PLANT AND EQUIPMENT	<u>4,785,722</u>	<u>4,118,605</u>
 TOTAL ASSETS	 <u>5,467,241</u>	 <u>4,741,838</u>
 DEFERRED OUTFLOWS OF RESOURCES:		
Deferred Outflows of Resources Related to Pension	32,673	51,862
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u><u>\$ 5,499,914</u></u>	 <u><u>\$ 4,793,700</u></u>

The accompanying Notes are an integral part of these Financial Statements.

STAMPS WATER WORKS
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

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LIABILITIES AND FUND EQUITY

	2019	2018
CURRENT LIABILITIES:		
Accounts Payable	\$ 14,705	\$ 16,588
Accrued Taxes Payable	3,404	3,119
Accounts Payable - City of Stamps	29,328	29,453
Accrued Interest Payable	322	329
Bonds Payable - USDA	5,075	4,950
TOTAL CURRENT LIABILITIES	<u>52,834</u>	<u>54,439</u>
LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Customers' Meter Deposits Payable	<u>58,392</u>	<u>56,663</u>
LONG-TERM LIABILITIES:		
Bonds Payable - USDA	242,559	247,634
Net Pension Liability	234,483	245,524
LONG-TERM LIABILITIES	<u>477,042</u>	<u>493,158</u>
TOTAL LIABILITIES	<u>588,268</u>	<u>604,260</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred Inflows of Resources Related to Pension	24,264	29,272
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>612,532</u>	<u>633,532</u>
FUND EQUITY:		
Contributed Capital	3,208,575	3,208,575
Retained Earnings:		
Reserved	95,111	74,035
Unreserved	1,583,696	877,558
TOTAL FUND EQUITY	<u>4,887,382</u>	<u>4,160,168</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY	<u>\$ 5,499,914</u>	<u>\$ 4,793,700</u>

The accompanying Notes are an integral part of these Financial Statements.

STAMPS WATER WORKS
STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN FUND EQUITY
FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

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	2019	2018
OPERATING REVENUE:		
Water Sales	\$ 364,715	\$ 354,713
Sewer Service Charges	96,775	98,783
Sales Tax Revenue	19,254	3,160
Penalty Revenue	15,612	16,014
Miscellaneous Revenues	17,000	11,858
Billing Adjustments	(8,021)	(4,357)
ARNC Revolving Loan Forgiveness	783,966	1,587,351
TOTAL OPERATING REVENUE	<u>1,289,301</u>	<u>2,067,522</u>
OPERATING EXPENSES:		
Salaries	171,300	195,286
Payroll Taxes	13,565	14,663
Retirement	25,541	28,440
GASB 68 Adjustment	3,140	1,483
Insurance	24,857	31,069
Legal and Professional	17,218	2,724
Sewer Analysis	2,325	2,054
Supplies	30,366	33,909
Office	6,177	10,666
Uniforms	3,807	4,015
Chemicals	7,243	6,234
Repairs and Maintenance	8,135	40,340
Vehicle	11,673	10,528
Utilities	95,985	67,060
Travel	950	1,428
Dues and Permits	3,482	3,252
Meetings and Seminars	950	814
Licenses	7,038	4,343
Depreciation	116,849	120,517
Miscellaneous	6,875	3,964
TOTAL OPERATING EXPENSES	<u>557,476</u>	<u>582,789</u>
OPERATING INCOME	<u>731,825</u>	<u>1,484,733</u>
NON-OPERATING INCOME (EXPENSES):		
Interest Income	1,641	1,403
Interest Expense	(6,252)	(6,375)
TOTAL NON-OPERATING INCOME (EXPENSES):	<u>(4,611)</u>	<u>(4,972)</u>
NET INCOME	<u>727,214</u>	<u>1,479,761</u>
FUND EQUITY, BEGINNING OF YEAR	4,160,168	2,680,407
FUND EQUITY, END OF YEAR	<u>\$ 4,887,382</u>	<u>\$ 4,160,168</u>

The accompanying Notes are an integral part of these Financial Statements.

STAMPS WATER WORKS
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

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	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 476,936	\$ 472,636
Cash Received from Other Operating Revenues	806,814	1,599,209
Cash Paid to Suppliers	(269,165)	(265,961)
Cash Paid to Employees	(171,300)	(195,286)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>843,285</u>	<u>1,610,598</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	1,700	1,403
Purchase of Certificate of Deposit	(367)	(364)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>1,333</u>	<u>1,039</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase in Meter Deposits	<u>1,729</u>	<u>1,360</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(783,966)	(1,587,345)
Principal Paid on Revenue Bonds	(4,950)	(4,828)
Interest Paid on Revenue Bonds	(6,259)	(6,381)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	<u>(795,175)</u>	<u>(1,598,554)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>51,172</u>	<u>14,443</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	471,678	457,235
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 522,850</u>	<u>\$ 471,678</u>

The accompanying Notes are an integral part of these Financial Statements.

STAMPS WATER WORKS
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

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Reconciliation of operating income to net cash flow from
operating activities:

	<u>2019</u>	<u>2018</u>
OPERATING INCOME	<u>\$ 724,693</u>	<u>\$ 1,484,733</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	116,849	120,517
Pension related adjustment	10,272	1,483
Change in Assets and Liabilities:		
Accounts Receivable	(5,551)	4,323
Prepaid Expenses	(1,255)	98
Accounts Payable and Accrued Expenses	<u>(1,723)</u>	<u>(556)</u>
TOTAL ADJUSTMENTS	118,592	125,865
NET CASH FLOW FROM OPERATING ACTIVITIES	<u><u>\$ 843,285</u></u>	<u><u>\$ 1,610,598</u></u>

SCHEDULE OF NONCASH INVESTING AND FINANCING
ACTIVITIES:

None

The accompanying Notes are an integral part of these Financial Statements.

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 1. Significant Accounting Policies:

The Stamps Water Works is an Enterprise Fund of the City of Stamps, Arkansas. The System is governed by the City Council of the City of Stamps, Arkansas. The accompanying financial statements and other information reflect the Stamps Water Works fund only and do not include other funds of the City of Stamps, Arkansas.

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Bad debts, which are insignificant in amount, are recognized based on the direct charge-off of individual accounts considered uncollectible after deduction of the customer's meter deposit.

Plant and equipment are stated at cost and are depreciated over estimated useful lives calculated on the straight-line method as follows:

	<u>Years</u>
Furniture and Fixtures	3 - 20
Water Plant	10 - 80
Sewer Plant	10 - 80
Vehicles and Equipment	5 - 25

For purposes of the Statement of Cash Flows, the System considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

The Utility System requires every customer to pay a cash meter deposit before service is provided. Concentrations of credit risk with respect to trade receivables are limited by these deposits. The Utility monitors its exposure for credit losses and maintains allowances for anticipated losses, if warranted.

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

Management has evaluated subsequent events through December 10, 2021, the date the financial statements were available for issuance.

Certain accounts in the prior-year statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Note 2. Restricted Assets:

Schedule I of this report shows restricted assets existing at December 31, 2019 and 2018.

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 3. Unbilled Revenue:

Unbilled water and sewer revenue of \$25,190 was computed for usage from the last meter reading date of 2019 until the end of December. This amount is computed by allocating water and sewer billed based on the last meter reading date.

Note 4. Capital Assets:

Capital Asset activity for the year ended December 31, 2019 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
CAPITAL ASSETS:				
Land - Water	\$ 14,163	\$ -	\$ -	\$ 14,163
Land - Sewer	22,902	-	-	22,902
Equipment - Water	307,813	-	-	307,813
Equipment - Sewer	131,435	-	-	131,435
System - Water	2,045,228	-	-	2,045,228
System - Sewer	3,402,298	-	-	3,402,298
Office Furniture and Equipment	13,011	-	-	13,011
Constructions in Progress	1,775,421	783,966	-	2,559,387
TOTAL CAPITAL ASSETS AT HISTORICAL COST	<u>7,712,271</u>	<u>783,966</u>	<u>-</u>	<u>8,496,237</u>
LESS ACCUMULATED DEPRECIATION:				
Equipment - Water	(272,810)	(16,388)	-	(289,198)
Equipment - Sewer	(131,435)	-	-	(131,435)
System - Water	(1,484,972)	(50,844)	-	(1,535,816)
System - Sewer	(1,691,716)	(49,497)	-	(1,741,213)
Office Furniture and Equipment	(12,733)	(120)	-	(12,853)
TOTAL DEPRECIATION	<u>(3,593,666)</u>	<u>(116,849)</u>	<u>-</u>	<u>(3,710,515)</u>
NET CAPITAL ASSETS	<u>\$ 4,118,605</u>	<u>\$ 667,117</u>	<u>\$ -</u>	<u>\$ 4,785,722</u>

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 4. Capital Assets: (Continued)

Capital Asset activity for the year ended December 31, 2018 was as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
CAPITAL ASSETS:				
Land - Water	\$ 14,163	\$ -	\$ -	\$ 14,163
Land - Sewer	22,902	-	-	22,902
Equipment - Water	307,813	-	-	307,813
Equipment - Sewer	131,435	-	-	131,435
System - Water	2,045,228	-	-	2,045,228
System - Sewer	3,402,298	-	-	3,402,298
Office Furniture and Equipment	13,011	-	-	13,011
Constructions in Progress	188,076	1,587,345	-	1,775,421
TOTAL CAPITAL ASSETS AT HISTORICAL COST	<u>6,124,926</u>	<u>1,587,345</u>	<u>-</u>	<u>7,712,271</u>
LESS ACCUMULATED DEPRECIATION:				
Equipment - Water	(252,754)	(20,056)	-	(272,810)
Equipment - Sewer	(131,435)	-	-	(131,435)
System - Water	(1,434,128)	(50,844)	-	(1,484,972)
System - Sewer	(1,642,219)	(49,497)	-	(1,691,716)
Office Furniture and Equipment	(12,613)	(120)	-	(12,733)
TOTAL DEPRECIATION	<u>(3,473,149)</u>	<u>(120,517)</u>	<u>-</u>	<u>(3,593,666)</u>
NET CAPITAL ASSETS	<u>\$ 2,651,777</u>	<u>\$ 1,466,828</u>	<u>\$ -</u>	<u>\$ 4,118,605</u>

Note 5. Long-Term Debt:

Long-term debt as of December 31, 2019 and 2018 was as follows:

	12/31/2019	12/31/2018
Bond payable to USDA Rural Development; original amount \$283,000; due in monthly installments of \$934, including interest at 2.5%; secured by the System's revenue.	\$ 247,634	\$ 252,584
Less portion considered current	(5,075)	(4,950)
Total long-term debt	<u>\$ 242,559</u>	<u>\$ 247,634</u>

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NOTES TO FINANCIAL STATEMENTS
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Note 5. Long-Term Debt: (Continued)

Debt service requirements of long-term debt as of December 31, 2019 are as follows:

Year	Principal	Interest	Total Requirements
2020	5,075	6,133	\$ 11,208
2021	5,203	6,005	11,208
2022	5,335	5,873	11,208
2023	5,470	5,738	11,208
2024	5,608	5,738	11,346
Thereafter	220,943	83,600	304,543
Total	\$ 247,634	\$ 113,087	\$ 360,721

Note 6. Contributed Capital:

The balance in this account represents the value of system additions paid for by customers, other outside sources, and grants received to assist in financing construction of new additions to the System.

Note 7. Retained Earnings:

Retained Earnings in the amount of \$1,671,675 as of December 31, 2019 consists of the accumulated earnings of the water and sewer system of \$1,576,564 and the excess of restricted assets over liabilities payable from restricted assets of \$95,111.

Note 8. Public Fund Deposits and Investments:

State law generally requires that City funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America. All cash funds of the System, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of Stamps Water Works in financial institutions permitted by law.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. Stamps Water Works does not have a policy for custodial credit risk. The carrying value of the System's accounts and investments at December 31, 2019 was \$599,045. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$702,324 before reduction of outstanding items. Financial institutions pledged securities with a fair market value of \$1,177,363 to collateralize deposits for the Water Works and the City of Stamps.

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NOTES TO FINANCIAL STATEMENTS
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Note 8. Public Fund Deposits and Investments: (Continued)

The securities held as collateral are classified as to credit risk under three categories, as follows:

- Category 1 - Collateralized with securities held by the System or by its agent in the System's name,
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the System's name.
- Category 3 - Uncollateralized - this includes held by the pledging financial institution's trust department or agent but not in the System's name.

All securities are classified under category 3, above.

Federal Deposit Insurance Corporation coverage allows for a total of \$250,000 coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Stamps Water Works' accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Stamps accounts and investments at a financial institution.

Investment Interest Rate Risk: Stamps Water Works does not have an investment interest rate risk. All investments are six-month certificates of deposit and the System is under no obligation to renew upon maturity.

Investment Credit Risk: Stamps Water Works does not have a formal investment policy. All investments are short-term certificates of deposit with banks authorized by state law to receive deposits of public funds and with which the System has a collateral agreement.

Foreign Currency Risk: Stamps Water Works has no exposure to foreign currency risk.

Note 9. Risk Management:

The System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The System maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the System.

Note 10. Arkansas Public Employees Retirement System:

Implementation of GASB 68 – Restatement of Prior Year Ending Net Position

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective for fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers.

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NOTES TO FINANCIAL STATEMENTS
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Note 10. Arkansas Public Employees Retirement System: (Continued)

Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return.

Plan Description

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (The Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State, and the Director of the Department of Finance and Administration.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for the APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The Utility contributes an actuarially determined amount to the plan, which was 15.32% up to June 30, 2019, and 15.32% thereafter of annual covered payroll for the year ending December 31, 2019. Contributions made by the Utility were \$25,541 and \$28,440 for the years ended December 31, 2019 and 2018, respectively.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 07/01/2005	2.07%
Contributory, on or after 07/01/2005	2.03%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service.
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
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Note 10. Arkansas Public Employees Retirement System: (Continued)

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjusting of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-703(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2019. Effective July 1, 2019, state law requires employers to contribute 15.32% of annual covered payroll.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 10. Arkansas Public Employees Retirement System: (Continued)

Wage Inflation Rate	3.25%
Salary Increases	3.25-9.85%
Investment Rate of Return	7.15% (net of investment and administrative expenses)
Mortality Table	RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were fully adjusted for fully generational mortality improvements using Scale MP-2017

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate rates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2019 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.20%
International Equity	24%	6.33%
Real Assets	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
Total	100%	

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

STAMPS WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 10. Arkansas Public Employees Retirement System: (Continued)

At December 31, 2019, the Utility reported deferred outflows of resources and deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	2019	2018	2017	2016	2015
Deferred Outflows of Resources:					
Differences between expected and actual experience	\$ 6,381	\$ 3,905	\$ 5,555	\$ 287	\$ -
Changes in Proportion and differences between employer contributions and proportionate share of contribution	3,630	7,133	4,350	6,951	-
Changes in assumptions	12,728	27,937	46,103	23,258	29,969
Utility contributions subsequent to measurement date	9,934	12,887	10,426	11,758	10,308
Net difference between projected and actual earnings on pension plan investments	-	-	12,005	52,990	-
Deferred Inflows of Resources:					
Differences between expected and actual experience	(348)	(2,577)	(5,635)	(10,887)	-
Changes in Proportion and differences between employer contributions and proportionate share of contribution	(13,121)	(5,298)	(7,727)	(148)	-
Changes in assumptions	(9,014)	(15,184)	-	-	(29,969)
Utility contributions subsequent to measurement date	-	-	-	-	(10,308)
Net difference between projected and actual earnings on pension plan investments	(1,781)	(6,213)	-	-	-
Totals	<u>\$ 8,409</u>	<u>\$ 22,590</u>	<u>\$ 65,077</u>	<u>\$ 84,209</u>	<u>\$ -</u>

\$9,934 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Differences in Experience	Changes in Assumptions	Differences in Earnings	Changes in Contribution Proportion	Net Reduction in Pension Expense
2020	\$ 1,312	\$ 808	\$ (356)	\$ (2,064)	\$ (300)
2021	1,312	808	(356)	(2,064)	(300)
2022	1,312	808	(356)	(2,064)	(300)
2023	1,312	808	(356)	(2,064)	(300)
2024	785	482	(357)	(1,235)	(325)
	<u>\$ 6,033</u>	<u>\$ 3,714</u>	<u>\$ (1,781)</u>	<u>\$ (9,491)</u>	<u>\$ (1,525)</u>

Note 11. Other Matters:

ARNC Revolving Loan Forgiveness, is a loan to the Stamps Water Works that is for a substantial water project. The water works has received advances totaling \$2,559,387 in 2019, 2018 and 2017. Funds are simultaneously advanced and forgiven by ANRC, and will not be repaid, unless the water works fails to comply with the Loan/Grant agreement.

TURNER, RODGERS, MANNING & PLYLER, PLLC

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INDEPENDENT AUDITORS' 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 City Council
Stamps, 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 Stamps Water Works as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given the limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 an entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

December 10, 2021

STAMPS WATER WORKS
SCHEDULES OF RESTRICTED ASSETS
DECEMBER 31, 2019 AND 2018

SCHEDULE I
Page 20

	<u>2019</u>	<u>2018</u>
CUSTOMERS' METER DEPOSIT FUND:		
Cash	35,975	35,866
Certificates of Deposit	<u>19,508</u>	<u>19,508</u>
TOTAL CUSTOMERS' METER DEPOSIT FUND	<u>55,483</u>	<u>55,374</u>
DEBT SERVICE FUND:		
USDA Bond Payment Account	985	42
USDA Debt Service	11,289	11,267
USDA Short Lived Asset Fund	<u>85,746</u>	<u>64,015</u>
TOTAL DEBT SERVICE FUND	<u>98,020</u>	<u>75,324</u>
TOTAL RESTRICTED ASSETS	<u>\$ 153,503</u>	<u>\$ 130,698</u>

See Independent Auditors' Report.

STAMPS WATER WORKS
BUDGETARY COMPARISON SCHEDULE
FOR YEAR ENDED DECEMBER 31, 2019

SCHEDULE II
Page 21

	BUDGET	ACTUAL	VARIANCE
OPERATING REVENUE:			
Water Sales	\$ 365,000	\$ 364,715	\$ (285)
Sewer Service Charges	102,000	96,775	(5,225)
Sales Tax Revenue	18,000	19,254	1,254
Penalty Revenue	17,500	15,612	(1,888)
Miscellaneous Revenues	20,675	17,000	(3,675)
Billing Adjustments	2,500	(8,021)	(10,521)
ANRC Revolving Loan Forgiveness	-	783,966	783,966
TOTAL OPERATING REVENUE	525,675	1,289,301	763,626
OPERATING EXPENSES:			
Salaries	199,000	171,300	(27,700)
Payroll Taxes	13,650	13,565	(85)
Retirement	26,000	25,541	(459)
GASB 68 Adjustment	-	3,140	3,140
Insurance	28,800	24,857	(3,943)
Legal and Professional	14,305	17,218	2,913
Sewer Analysis	2,500	2,325	(175)
Supplies	26,000	30,366	4,366
Office	8,000	6,177	(1,823)
Uniforms	4,000	3,807	(193)
Chemicals	8,500	7,243	(1,257)
Repairs and Maintenance	30,000	8,135	(21,865)
Vehicle	11,200	11,673	473
Utilities	68,700	95,985	27,285
Travel	1,750	950	(800)
Dues and Permits	3,580	3,482	(98)
Meetings and Seminars	2,900	950	(1,950)
Licenses	8,500	7,038	(1,462)
Depreciation/Capital Outlay	35,000	116,849	81,849
Miscellaneous	7,440	6,875	(565)
TOTAL OPERATING EXPENSES	499,825	557,476	57,651
OPERATING INCOME	25,850	731,825	705,975
NON-OPERATING INCOME (EXPENSES):			
Interest Income	2,000	1,641	(359)
Interest Expense	-	(6,252)	(6,252)
TOTAL NON-OPERATING INCOME (EXPENSES):	2,000	(4,611)	(6,611)
NET INCOME	\$ 27,850	\$ 727,214	\$ 699,364

See Independent Auditors' Report.

STAMPS WATER WORKS
REQUIRED SUPPLEMENTAL INFORMATION
FOR COST-SHARING PLANS
FOR THE YEAR ENDED DECEMBER 31, 2019

SCHEDULE III
Page 22

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

	2019	2018	2017	2016	2015
System's proportion of the net pension liability (asset) per APERS	0.0205832%	0.0219270%	0.0213148%	0.0223290%	0.9838200%
System's proportionate share of the net pension liability - per APERS	\$ 240,144	\$ 245,524	\$ 286,528	\$ 303,508	\$ 203,068
System's covered-employee payroll	\$ 166,717	\$ 195,272	\$ 190,178	\$ 204,653	\$ 186,783
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	144.04%	125.73%	150.66%	148.30%	108.72%
Plan fiduciary net position as a percentage of the total pension liability	78.55%	79.59%	75.65%	75.50%	84.15%

Schedule of Required Contributions Last Fiscal Year

Contractually required contribution	\$ 25,541	\$ 29,359	\$ 27,861	\$ 28,498	\$ 25,862
Contributions in relation to the contractually required contribution	(25,541)	(29,359)	(27,861)	(28,498)	(25,862)
Contribution deficiency (excess)	-	-	-	-	-
System's covered-employee payroll	\$ 166,717	\$ 195,272	\$ 190,178	\$ 204,653	\$ 186,783
Contributions as a percentage of covered-employee payroll	15.32%	15.03%	14.65%	13.93%	13.85%

See Independent Auditors' Report.

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Certified Public Accountants

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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 City Council
Stamps, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the Stamps Water Works' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Stamps Water Works' major federal programs for the year ended December 31, 2019. Stamps Water Works' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Stamps Water Works' major federal programs based on our audit of the types of compliance requirements referred to above. 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 Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Stamps Water Works' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Stamps Water Works' compliance.

Opinion on Each Major Federal Program

In our opinion, Stamps Water Works, 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, 2019.

Report on Internal Control over Compliance

Management of Stamps Water Works, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Stamps Water Works' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Stamps Water Works' internal control over compliance.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

December 10, 2021

STAMPS WATER WORKS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED DECEMBER 31, 2019

SCHEDULE IV
Page 25

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANTS EXPENDED</u>
<u>U.S. Environmental Protection Agency</u>		
<i>Passed through Arkansas Natural Resource Commission</i>		
Drinking Water State Revolving Fund	66.468	\$ 783,966
TOTAL		<u>\$ 783,966</u>

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the entity's financial statements. The entity uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. Entity records should be consulted to determine the amounts expended or matched from non-federal sources.

See Independent Auditors' Report.

STAMPS WATER AND WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED DECEMBER 31, 2019

SCHEDULE V
Page 26

Section I - Summary of Auditors' Results:

1. The opinions expressed in the independent auditor's report were:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
2. The independent auditor's report on internal control over financial reporting described:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
3. Noncompliance considered material to the financial statements was disclosed by the audit?
☐ Yes ☒ No
4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program described:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
5. The opinions expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on federal awards were:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
6. The audit disclosed findings required to be reported by the Uniform Guidance?
☐ Yes ☒ No
7. The entity's major program was:

Drinking Water State Revolving Fund
8. The threshold to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$750,000.
9. The entity qualified as a low-risk auditee as that term is defined in the Uniform Guidance?
☐ Yes ☒ No

CFDA Number
66.468

Section II - Financial Statement Findings:
None

Section III - Federal Award Findings and Questioned Costs:
None