

**WATER, SEWER AND SANITATION
DEPARTMENT
OF STAR CITY, ARKANSAS**

**INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2021 AND 2020

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WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Star City, Arkansas

We have audited the accompanying financial statements of the Water, Sewer and Sanitation Department of Star City, Arkansas, a component unit of the Star City, Arkansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Water, Sewer and Sanitation Department of Star City, Arkansas as of December 31, 2021 and 2020, and the changes in financial position and cash flows for the years then ended 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Department, 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 opinions.

Responsibilities of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable).

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion of 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 comparisons as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 20 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Report Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Department's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water, Sewer and Sanitation Department of Star City, Arkansas and do not purport to, and do not present fairly the financial position of the Star City, Arkansas, as of December 31, 2021 and 2020, the changes in its financial position or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Lisa Stephens". The signature is written in a cursive, flowing style.

Lisa Stephens Certified Public Accountant, PLC
Conway, Arkansas
September 27, 2022

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 349,621	\$ 427,235
Prepaid insurance	3,936	5,616
Accounts receivable, net of allowance for bad debts	193,742	188,660
Inventories	9,019	9,254
Total current assets	<u>556,318</u>	<u>630,765</u>
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	222,684	203,347
Capital assets, net of accumulated depreciation	5,280,493	3,535,348
Total non-current assets	<u>5,503,177</u>	<u>3,738,695</u>
Total Assets	<u>\$ 6,059,495</u>	<u>\$ 4,369,460</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 40,328	\$ 40,039
Advances from USDA	194,277	49,618
Current maturities of long-term debt	78,701	42,734
Total current liabilities	<u>313,306</u>	<u>132,391</u>
LONG-TERM DEBT, NET OF CURRENT MATURITIES	<u>2,465,522</u>	<u>882,448</u>
LIABILITIES PAID FROM RESTRICTED ASSETS		
Customer deposits	<u>55,742</u>	<u>55,894</u>
TOTAL LIABILITIES	<u>2,834,570</u>	<u>1,070,733</u>
NET POSITION		
Net investment in capital assets	2,541,993	2,560,548
Restricted	222,684	203,347
Unrestricted	460,248	534,832
	<u>3,224,925</u>	<u>3,298,727</u>
	<u>\$ 6,059,495</u>	<u>\$ 4,369,460</u>

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

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
OPERATING REVENUES		
Water revenues	\$ 335,117	\$ 316,341
Sewer revenues	373,533	364,242
Sanitation revenues	321,069	272,090
Other operating revenue	44,459	33,321
Grant revenue	19,386	-
Total operating revenues	<u>1,093,564</u>	<u>985,994</u>
OPERATING EXPENSES		
Salaries	313,941	287,982
City council salary reimbursement	39,212	31,597
Utilities	69,335	58,266
Insurance	12,178	12,361
Repairs and maintenance	20,758	19,498
Payroll taxes	24,532	22,393
Supplies	1,425	1,650
Rent	15,600	13,200
Vehicle and equipment	46,598	35,126
Postage	5,071	4,777
Depreciation	185,926	195,197
Contract sanitation	186,365	179,881
Fuel expense	16,718	12,672
Health insurance	53,631	43,234
Employee retirement	47,445	42,246
Professional fees	9,619	9,953
Other operating expenses	70,961	25,870
Total operating expenses	<u>1,119,315</u>	<u>995,903</u>
OPERATING INCOME (LOSS)	<u>(25,751)</u>	<u>(9,909)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	687	1,446
Interest expense	(48,738)	(42,904)
	<u>(48,051)</u>	<u>(41,458)</u>
CHANGE IN NET POSITION	<u>(73,802)</u>	<u>(51,367)</u>
NET POSITION, BEGINNING OF YEAR	<u>3,298,727</u>	<u>3,350,094</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,224,925</u></u>	<u><u>\$ 3,298,727</u></u>

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

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,024,637	\$ 955,926
Cash received from grants	19,386	-
Cash received from other operating revenue	44,459	33,321
Cash payments for services and supplies	(476,956)	(420,481)
Cash payments to employees and council members	(454,228)	(382,512)
Cash provided by operating activities	<u>157,298</u>	<u>186,254</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net increase in customer deposits	<u>(152)</u>	<u>986</u>
Net cash provided (used) by noncapital financing activities	<u>(152)</u>	<u>986</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of property and equipment	(1,931,072)	(352,449)
Proceeds from USDA note and advances	1,813,136	223,374
Principal payments on note obligations	(49,436)	(35,691)
Interest paid on bond and note obligations	<u>(48,738)</u>	<u>(42,363)</u>
Net cash (used) by capital and related financing activities	<u>(216,110)</u>	<u>(207,129)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>687</u>	<u>1,446</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,277)	(18,443)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>630,582</u>	<u>649,025</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 572,305</u></u>	<u><u>\$ 630,582</u></u>

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

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
STATEMENTS OF CASH FLOWS (PAGE 2)
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (25,751)	\$ (9,909)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	185,926	195,197
(Increase)/decrease in:		
Accounts receivable	(5,082)	3,253
Inventories	235	(681)
Prepaid insurance	1,680	3,071
Increase/(decrease) in:		
Accounts payable and accrued liabilities	<u>290</u>	<u>(4,677)</u>
	<u>\$ 157,298</u>	<u>\$ 186,254</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Water, Sewer and Sanitation Department of Star City, Arkansas, (the Department) is a component unit of the City of Star City, Arkansas (the City). The Department is independent with respect to revenue, expenses, assets, and liabilities, is prohibited by loan agreements from converting any revenue or assets to general use and is not responsible for any other departments' debt. These financial statements present the financial position, results of operations and cash flows of the Department, and are not intended to present that of the City of Star City or any of its other activities.

Basis of Accounting

The accounts of the Department are accounted for in an enterprise fund, which is considered a proprietary fund type. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. Net position is segregated into invested in capital assets, restricted, and unrestricted components.

The Department prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Therefore, revenues are recorded when earned and expenses are recorded when a liability has been incurred, regardless of when cash is received or paid. Accounting principles generally accepted in the United States of America applicable to municipal government proprietary units, such as the Department, generally include pronouncements of the Financial Accounting Standards Board ("FASB") relating to for-profit businesses and, in addition, certain pronouncements of the Governmental Accounting Standards Board ("GASB").

Revenue recognition

The Department recognizes revenue when earned, based upon customer usage or when the service is provided. In general, residential and commercial customers are billed on a monthly basis. The rates that are charged to customers are set by the Commission of the Department and approved by the City Council.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Department considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

The Department bills customers for water, sewer and sanitation services based on usage. The Department provides credit to its customers on terms that are customary for municipal utilities. The Department terminates service to delinquent customers and, in addition, holds deposits that can be offset against delinquent account balances. Department management reviews accounts receivable on a periodic basis and provides an allowance for accounts they determine are uncollectible. In estimating uncollectible amounts, management uses significant judgment and considers factors such as geographic location, overall economic conditions, and historical customer performance. The allowance for bad debts at December 31, 2021 and 2020 was \$34,704 and \$31,237, respectively.

Inventory

Inventories consist primarily of water and sewer pipe, water meters, clamps, and chemicals. Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Restricted assets

Restricted assets include cash and cash equivalents that are legally restricted as to their future use by external groups such as creditors, grantors, contributors, or by laws and regulations. Restricted assets consist of the meter deposit fund, depreciation fund and the bond service reserve fund.

Capital Assets

Water, Sewer and Sanitation plant, and machinery and equipment placed in service are stated at original cost. Interest is capitalized on significant assets constructed by the Department. The cost of current repairs, maintenance, and minor replacements is charged to expenses when incurred. The Department provides for depreciation on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives of the assets by category are as follows:

Water plant	40 years
Sewer plant	40 years
Machinery and equipment	5-20 years

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Department shares certain equipment with the street department of the City. The amount recorded in the financial statements includes only the Department's share of the assets' cost. The Department follows the practice of capitalizing all expenditures for property, equipment, improvements, and infrastructure that will have a useful life over one year.

Fair Value of Financial Instruments

The Department's financial instruments are cash, accounts receivable, supplies inventory, accounts payable, other current liabilities and long-term debt. The recorded values of cash, accounts receivable, supplies inventory, accounts payable and other current liabilities approximate their fair values based on their short-term nature. The recorded value of long-term debt approximates its fair value, as interest approximates market rates.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expense, and capital contributions. Net position is classified in the following components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as debt covenants), grantors, contributors, laws or other regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes of which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City Council adopts an annual budget for the Department. The budget is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and non-operating income and expense items are not considered. All annual appropriations lapse at year-end.

Cash Fund Descriptions and Restricted Cash Fund Requirements

A description of cash funds and their requirements are as follows:

Revenue Fund - The Revenue Fund receives all revenues from customers and disburses them as required.

Sewer Fund - The Sewer Fund receives the prior month’s revenues collected from sewer fees charged to customers and pays the necessary and ordinary maintenance and operational expenditures of the Department.

Water Fund - The Water Fund receives the remaining balance of the prior month’s revenues after the Bond, Sanitation, Sewer and Depreciation Funds have been funded. This fund pays the necessary and ordinary maintenance and operational expenditures of the water system.

Sanitation Fund - The Sanitation Fund receives the prior month’s revenues collected from sanitation fees charged to customers and pays the associated cost to the contract providers. The fund also collects revenue from recycling companies.

Water and Sewer Escrow Fund - The Arkansas Department of Environmental Quality requires a balance in this fund. There are no additional funding requirements. This fund is used to pay for expenses approved by Farmers Home Administration (FmHA).

Water Depreciation Fund - The Water Depreciation Fund can be used only for water well maintenance. The fund earns interest monthly.

Meter Deposit Fund - Customers make deposits to guarantee against loss or damage of the meters or other equipment installed at the customer’s service address. Upon termination of the service to customers, deposits are either refunded, used to replace meters and other installation damaged by customers, or to pay for past due amounts not paid by customers.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Fund Descriptions and Restricted Cash Fund Requirements - continued

Sewer Bond and Debt Service Reserve Fund - These funds receive an amount equal to the monthly principal and interest payments on outstanding debt, plus an additional amount as required by bond ordinances. Upon full payment of the bonds, the remaining monies, if any, will be returned to the Water Fund.

Water Improvement Fund - This fund receives money from the City General Fund. The fund is used to pay for additions to the water plant.

Sewer Improvement Fund - This fund receives money from the City General Fund. The fund is used to pay for additions to the sewer plant.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

As a municipality owned utility, the Department is exempt from federal and state income taxes under the Internal Revenue Code ("IRC") Section 115, although unrelated business income maybe subject to income taxes under the IRC. Additionally, the Department's outstanding bonds are subject to excess earnings and arbitrage rebate laws.

Long-lived assets

The Department evaluates prominent events or changes in circumstances affecting long-lived assets and certain identifiable intangibles to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. During the year ended December 31, 2021 and 2020, the Department determined there were no triggering events indicating impairment of its capital assets.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 2: CAPITAL ASSETS

Capital assets of the Department for the year ended December 31, were as follows:

	<u>2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>2021</u>
Land and easements	\$ 48,042	\$ -	\$ -	\$ 48,042
Water plant	3,350,378	-	-	3,350,378
Sewer plant	3,748,992	24,575	-	3,773,567
Sanitation plant	27,400	-	-	27,400
Machinery and equipment	1,171,394	35,593	-	1,206,987
Construction in progress	223,371	1,870,903	-	2,094,274
	8,569,577	1,931,071	-	10,500,648
Accumulated depreciation	(5,034,229)	(185,926)	-	(5,220,155)
	<u>\$ 3,535,348</u>	<u>\$ 1,745,145</u>	<u>\$ -</u>	<u>\$ 5,280,493</u>

	<u>2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>2020</u>
Land and easements	\$ 48,042	\$ -	\$ -	\$ 48,042
Water plant	3,350,378	-	-	3,350,378
Sewer plant	3,679,615	69,377	-	3,748,992
Sanitation plant	27,400	-	-	27,400
Machinery and equipment	1,112,234	59,160	-	1,171,394
Construction in progress	-	223,371	-	223,371
	8,217,669	351,908	-	8,569,577
Accumulated depreciation	(4,839,032)	(195,197)	-	(5,034,229)
	<u>\$ 3,378,637</u>	<u>\$ 156,711</u>	<u>\$ -</u>	<u>\$ 3,535,348</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 3: CASH AND RESTRICTED FUNDS

Custodial Credit Risk - The Department maintains cash and cash equivalents, certificates of deposit and restricted fund accounts shown on the balance sheet on deposit with three local financial institutions that provide insurance through the Federal Deposit Insurance Corporation (FDIC) on balances up to \$250,000. Funds on deposit with these three financial institutions exceeded, at certain times throughout the year, the Federal Deposit Insurance Corporation (FDIC) limit. These financial institutions have pledged securities to collateralize balances in excess of FDIC limits. The pledged collateral is held by the financial institutions in the Department's name. The amounts of collateralized uninsured deposits were approximately \$323,423 and \$236,240 at December 31, 2021 and 2020, respectively.

Interest Rate Risk – Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of investments. Generally the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Department does not have a form investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Cash, cash equivalents and restricted funds consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Unrestricted:		
Petty cash	\$ 400	\$ 400
Revenue fund	88,710	87,755
Sewer fund	45,892	95,419
Sewer operations & maintenance fund	50,835	50,733
Water operations & maintenance fund	48,786	51,896
Water improvement	63,432	61,291
Escrow fund	4,971	4,965
Sewer construction fund	100	100
Sanitation fund	46,495	74,676
	<u>349,621</u>	<u>427,235</u>
Restricted:		
Debt service reserve	7,044	1,010
Short-lived asset reserve	17,570	2,510
Depreciation fund	61,414	63,404
Meter deposit fund	56,046	55,894
Bond service reserve fund	80,610	80,529
	<u>222,684</u>	<u>203,347</u>
	<u><u>\$ 572,305</u></u>	<u><u>\$ 630,582</u></u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4: LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	<u>2020</u>	<u>Additions</u>	<u>Payments</u>	<u>2021</u>
Series 1992 Water and Sewer Revenue Bonds due November 12, 2033 payable in monthly installments of \$6,629, including interest at 5.00%, secured by all revenues.	\$ 751,426	\$ -	\$ (49,436)	\$ 701,990
USDA Rural Development loan, not to exceed \$1,900,000, due 40 years after closing, including interest at 1.125%, secured by all revenues.	173,756	1,668,477	-	1,842,233
Less current maturities	<u>(42,734)</u>	<u>42,734</u>	<u>(78,701)</u>	<u>(78,701)</u>
	<u>\$ 882,448</u>	<u>\$ 1,711,211</u>	<u>\$ (128,137)</u>	<u>\$ 2,465,522</u>
	<u>2019</u>	<u>Additions</u>	<u>Payments</u>	<u>2020</u>
Series 1992 Water and Sewer Revenue Bonds due November 12, 2033 payable in monthly installments of \$6,629, including interest at 5.00%, secured by all revenues.	\$ 787,117	\$ -	\$ (35,691)	\$ 751,426
USDA Rural Development loan, not to exceed \$1,900,000, due 40 years after closing, including interest at 1.125%, secured by all revenues.	-	173,756	-	173,756
Less current maturities	<u>(40,646)</u>	<u>40,646</u>	<u>(42,734)</u>	<u>(42,734)</u>
	<u>\$ 746,471</u>	<u>\$ 214,402</u>	<u>\$ (78,425)</u>	<u>\$ 882,448</u>

The Department has certain covenants related to the Rural Development Loan and, as part of these loan agreements, are required to maintain the following reserves:

- a. Debt Service Reserve – The Department must establish a reserve equal to at least one annual loan installment that accumulates at the rate of 10% of one annual payment per year for ten years or until the balance is equal to one annual loan payment. The Department must deposit funds into this account until the required level of \$70,680 has been accumulated.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4: LONG-TERM DEBT (CONTINUED)

- b. Short-Lived Asset Reserve – The Department must establish a short-lived asset reserve to pay for repairs and/or replacement of major system assets identified by the engineer. The Department must deposit funds into this account until the required level of \$195,500 has been accumulated.

The Department was in compliance with the provisions of the bond ordinances approving the issuance of the rural development loans during the years ended December 31, 2021 and 2020. Future maturities of long-term debt are as follows:

Year Ending			
June 30	Principal	Interest	Total
2022	\$ 78,701	\$ 61,267	\$ 139,968
2023	81,349	58,619	139,968
2024	84,116	55,852	139,968
2025	87,011	52,957	139,968
2026	90,039	49,929	139,968
2027-2031	500,777	199,063	699,840
2032-2036	393,526	105,091	498,616
2037-2041	231,424	70,676	302,100
2042-2046	246,341	55,759	302,100
2047-2051	262,220	39,880	302,100
2052-2056	279,123	22,977	302,100
2057-2060	209,595	5,491	215,085
	<u>\$ 2,544,223</u>	<u>\$ 777,559</u>	<u>\$ 3,321,782</u>

NOTE 5: RETIREMENT PLAN

The Department participates in the Arkansas Public Employee Retirement System (APERS). APERS is a cost-sharing multiple-employer public employee retirement system. All full-time employees of the Department are covered under APERS. The Department is required to make contributions based on a percentage of gross salary expense of covered employees. Some employees contribute to APERS. Because APERS is a cost sharing public employee retirement system, actuarial information is not broken down by employer. Therefore, information regarding the actuarial liability relating to the Department's employees is not available.

The Department's share of contributions for the years ended December 31, 2021 and 2020 was \$47,445 and \$42,246, respectively.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 6: RELATED PARTY TRANSACTIONS

Rent expense represents amounts paid to the City General Fund for office space used by the Department. Rent in the amount of \$15,600 and \$13,200 was paid to the City General Fund for each of the years ended December 31, 2021 and 2020, respectively.

The Department also reimburses the City General Fund for one-half of the cost of salaries of members of the City Council for estimated time spent by the council on matters affecting the Department. The Department reimbursed the City \$39,212 and \$31,597 for Council members' salaries for the years ended December 31, 2021 and 2020, respectively.

NOTE 7: COMMITMENTS AND CONCENTRATION

The Department is committed to construction contracts in process at year end totaling \$-0-. As of December 31, 2021, \$1,780,397 had been incurred in connection with these contracts.

Financial instruments which potentially subject the Department to concentrations of credit risk consist primarily of trade receivables with a variety of customers and cash investments deposited with financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the Department's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Department performs ongoing credit evaluations of its customers but generally does not require collateral outside of customer deposits to support accounts receivable.

NOTE 8: RISK MANAGEMENT

The Department is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption, errors and omissions, employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Department insures itself against certain risks through participation with other Arkansas municipal entities in a public entity risk pool. The Department records its contribution to the pool as insurance expense. Management of the Department does not believe that any additional assessments related to the periods prior to December 31, 2021 and 2020 will be material.

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The Department evaluated the events and transactions subsequent to its December 31, 2021 statement of net position date and determined there were no significant events to report through September 27, 2022, which is the date the Department issued its financial statements.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET
POSITION, BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED DECEMBER 31, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Water revenues	\$ 335,117	\$ 384,000	\$ (48,883)
Sewer revenues	373,533	372,000	1,533
Sanitation revenues	321,069	280,000	41,069
Other income	44,459	64,000	(19,541)
Grant income	19,386	-	
Interest income	687	450	237
	<u>1,094,251</u>	<u>1,100,450</u>	<u>(25,585)</u>
OPERATING EXPENSES			
Salaries	313,941	303,000	10,941
City council salary reimbursement	39,212	33,400	5,812
Utilities	69,335	66,750	2,585
Insurance	12,178	9,500	2,678
Repairs and maintenance	20,758	129,400	(108,642)
Payroll taxes	24,532	25,200	(668)
Supplies	1,425	3,500	(2,075)
Rent	15,600	15,000	600
Vehicle and equipment	46,598	60,000	(13,402)
Postage	5,071	4,800	271
Contract sanitation	186,365	126,500	59,865
Fuel expense	16,718	16,000	718
Health insurance	53,631	44,600	9,031
Employee retirement	47,445	45,000	2,445
Professional fees	9,619	-	9,619
Other operating expenses	70,961	215,500	(144,539)
Interest expense	48,738	136,000	(87,262)
Capital outlay	1,931,071	239,300	1,691,771
Bond principal payments	49,436	-	49,436
	<u>2,962,634</u>	<u>1,473,450</u>	<u>1,489,184</u>
Total expenditures and capital outlays	<u>\$ 2,962,634</u>	<u>\$ 1,473,450</u>	<u>\$ 1,489,184</u>

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION,
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) (PAGE 2)
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
EXCESS OF REVENUES OVER EXPENDITURES, CAPITAL OUTLAYS AND TRANSFERS	(1,868,383)	(373,000)	(1,514,769)
FUND NET ASSETS, BEGINNING (NON-GAAP BUDGETARY BASIS)	<u>3,298,727</u>	<u>3,298,727</u>	<u>-</u>
FUND NET ASSETS, ENDING (NON-GAAP BUDGETARY BASIS)	<u><u>1,430,344</u></u>	<u><u>\$ 2,925,727</u></u>	<u><u>\$ (1,514,769)</u></u>
ADJUSTMENTS TO GAAP			
Bond principal payments (1)	49,436		
Capital outlay	1,931,071		
Depreciation and amortization (2)	(185,926)		
	<u>1,794,581</u>		
FUND NET ASSETS, ENDING (GAAP BASIS)	<u><u>\$ 3,224,925</u></u>		

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF ACTIVITY IN FUNDS REQUIRED BY BOND ORDINANCE
YEAR ENDED DECEMBER 31, 2021

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Interest Earned</u>	<u>Withdrawals</u>	<u>Ending Balance</u>
Bond and debt service reserve fund	<u>\$ 80,529</u>	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ 80,610</u>
Depreciation fund	<u>63,355</u>	<u>-</u>	<u>123</u>	<u>2,064</u>	<u>61,414</u>
Debt service reserve fund	<u>1,010</u>	<u>6,034</u>	<u>-</u>	<u>0</u>	<u>7,044</u>
Short-lived asset fund	<u>2,510</u>	<u>15,060</u>	<u>-</u>	<u>-</u>	<u>17,570</u>
	<u>\$ 147,404</u>	<u>\$ 21,094</u>	<u>\$ 204</u>	<u>\$ 2,064</u>	<u>\$ 166,638</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF INSURANCE COVERAGE
DECEMBER 31, 2021

Description of Coverage	Policy Period	Amount of Coverage
<u>Property Damage</u>		
Water tank and pumps	January 7, 2021 through January 6, 2022	\$ 823,394
Sewer plant and pumps	January 7, 2021 through January 6, 2022	\$ 123,000
Sanitation shop building and contents	January 7, 2021 through January 6, 2022	\$ 42,436
Vehicles and equipment	January 7, 2021 through January 6, 2022	\$ 233,090
<u>Employee Dishonesty</u>		
Blanket fidelity bond	July 1, 2021 through June 30, 2022	\$ 300,000

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF TITLES AND NAMES OF PRINCIPAL OFFICERS
DECEMBER 31, 2021**

<u>TITLE</u>	<u>NAME</u>
Mayor	Paul Carter
City Council Members	1. Renee Montgomery 2. John Davis 3. Sandra Harper 4. Ashley Steed 5. David McCoy 6. Tim Drake
Recorder Treasurer	Alicia Hawkins
Water Superintendent	Thomas Linzy
Utilities Clerks	1. Lea Ann Bradley 2. Kathy Weast

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF CUSTOMERS AND RATES
YEAR ENDED DECEMBER 31, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>
Residential Customers:			
Minimum charge (first 1,000 gallons)*	7.50	13.50	12.50
Minimum charge (next 500 gallons)	7.50	N/A	N/A
Minimum charge (next 500 gallons)	3.00	N/A	N/A
Next 10,000 gallons (charge per 1,000 gallons)	4.49	3.75	N/A
Next 10,000 gallons (charge per 1,000 gallons)	2.77	3.75	N/A
Additional gallons (charge per 1,000 gallons)	2.02	3.75	N/A
Regular Commercial Customers:			
Minimum charge (first 1,000 gallons)*	9.36	17.50	20.00
Minimum charge (next 500 gallons)	9.36	N/A	N/A
Minimum charge (next 500 gallons)	3.00	N/A	N/A
Next 10,000 gallons (charge per 1,000 gallons)	4.49	5.50	N/A
Next 10,000 gallons (charge per 1,000 gallons)	2.77	5.50	N/A
Additional gallons (charge per 1,000 gallons)	2.02	5.50	N/A
Large Commercial Customers:			
Minimum charge (first 3,000 gallons)*	18.75	N/A	20.00
Minimum charge (next 1,000 gallons)	6.00	N/A	N/A
Next 20,000 gallons (charge per 1,000 gallons)	4.49	N/A	N/A
Next 20,000 gallons (charge per 1,000 gallons)	2.77	N/A	N/A
Additional gallons (charge per 1,000 gallons)	2.02	N/A	N/A

Reconnect Fee

Reconnect Fee \$40 during business hours

Reconnect Fee \$60 after business hours

* Minimum charge for sewer is for the first 1,000 gallons.

Total Number of Customers:

2021	<u><u>2,123</u></u>
2020	<u><u>2,075</u></u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF REVENUES AND EXPENSES BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Water revenues	\$ 335,117	\$ -	\$ -	\$ 335,117
Sewer revenues	-	373,533	-	373,533
Sanitation revenues	-	-	321,069	321,069
Other operating revenue	(667)	25,487	19,639	44,459
Grant revenue	-	-	19,386	19,386
Total operating revenues	<u>334,450</u>	<u>399,020</u>	<u>360,094</u>	<u>1,093,564</u>
OPERATING EXPENSES				
Salaries	130,258	101,533	82,150	313,941
City council salary reimbursement	22,342	10,544	6,326	39,212
Utilities	47,371	21,018	946	69,335
Insurance	4,712	2,912	4,554	12,178
Repairs and maintenance	20,758	-	-	20,758
Payroll taxes	10,165	7,892	6,475	24,532
Supplies	1,425	-	-	1,425
Rent	6,000	6,000	3,600	15,600
Vehicle and equipment	5,264	40,387	947	46,598
Postage	5,071	-	-	5,071
Depreciation	185,926	-	-	185,926
Contract sanitation	-	-	186,365	186,365
Fuel expense	3,733	5,036	7,949	16,718
Health insurance	20,047	15,560	18,024	53,631
Employee retirement	19,764	15,325	12,356	47,445
Professional fees	9,619	-	-	9,619
Other operating expenses	55,551	19,346	(3,936)	70,961
Total operating expenses	<u>548,006</u>	<u>245,553</u>	<u>325,756</u>	<u>1,119,315</u>
OPERATING INCOME (LOSS)	<u>(213,556)</u>	<u>153,467</u>	<u>34,338</u>	<u>(25,751)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	510	102	75	687
Interest expense	(48,738)	-	-	(48,738)
	<u>(48,228)</u>	<u>102</u>	<u>75</u>	<u>(48,051)</u>
Increase (Decrease) in net position	<u>\$ (261,784)</u>	<u>\$ 153,569</u>	<u>\$ 34,413</u>	<u>\$ (73,802)</u>

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

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF REVENUES AND EXPENSES BY DEPARTMENT
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
OPERATING REVENUES				
Water revenues	\$ 316,341	\$ -	\$ -	\$ 316,341
Sewer revenues	-	364,242	-	364,242
Sanitation revenues	-	-	272,090	272,090
Other operating revenue	14,530	1,286	17,505	33,321
Grant revenue	-	-	-	-
Total operating revenues	<u>330,871</u>	<u>365,528</u>	<u>289,595</u>	<u>985,994</u>
OPERATING EXPENSES				
Salaries	135,960	72,410	79,612	287,982
City council salary reimbursement	15,217	8,190	8,190	31,597
Utilities	37,291	20,356	619	58,266
Insurance	3,280	2,518	6,563	12,361
Repairs and maintenance	19,498	-	-	19,498
Payroll taxes	10,554	5,609	6,230	22,393
Supplies	1,401	249	-	1,650
Rent	4,800	4,800	3,600	13,200
Vehicle and equipment	5,247	27,677	2,202	35,126
Postage	4,777	-	-	4,777
Depreciation	195,197	-	-	195,197
Contract sanitation	-	-	179,881	179,881
Fuel expense	3,447	3,046	6,179	12,672
Health insurance	16,077	11,005	16,152	43,234
Employee retirement	20,829	11,093	10,324	42,246
Professional fees	9,953	-	-	9,953
Other operating expenses	12,595	4,263	9,012	25,870
Total operating expenses	<u>496,123</u>	<u>171,216</u>	<u>328,564</u>	<u>995,903</u>
OPERATING INCOME (LOSS)	<u>(165,252)</u>	<u>194,312</u>	<u>(38,969)</u>	<u>(9,909)</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	985	219	242	1,446
Interest expense	(42,904)	-	-	(42,904)
	<u>(41,919)</u>	<u>219</u>	<u>242</u>	<u>(41,458)</u>
Increase (Decrease) in net position	<u><u>\$ (207,171)</u></u>	<u><u>\$ 194,531</u></u>	<u><u>\$ (38,727)</u></u>	<u><u>\$ (51,367)</u></u>

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

LISA STEPHENS CERTIFIED PUBLIC ACCOUNTANT, PLC

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PHONE 501-327-2834◆FAX 501-327-6663

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 City Council
Star City, 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 business-type activities of the Water, Sewer and Sanitation Department of Star City, Arkansas, a component unit of the City of Star City, Arkansas (the Department) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated September 27, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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 the Department'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 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 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 the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lisa Stephens Certified Public Accountant, PLC
Conway, Arkansas
September 27, 2022

**WATER, SEWER AND SANITATION DEPARTMENT
OF STAR CITY, ARKANSAS
LINCOLN COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

FEDERAL GRANTOR	CFDA NO.	PASS-THROUGH ENTITY ID NO.	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems For Rural Communities	10.760	60-50-700	<u>\$ 1,870,903</u>

(1) BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of the Water, Sewer and Sanitation Department of Star City, Arkansas (the "Department") under programs of the federal government for the year ended December 31, 2021 and is presented on the accrual basis of accounting. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position and changes in net assets of the District. For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the Department, agencies and departments of the federal government, and all subawards to the Department by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards all fall under one major program category in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The category is as follows:

Waste & Waste Disposal Loan & Grant Program

This program provides funding for clean and reliable drinking water systems, sanitary sewage disposal, sanitary solid waste disposal to households and businesses in rural communities.

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Report on Compliance for Each Major Federal Program and Report on Internal Controls Over Compliance

INDEPENDENT AUDITOR'S REPORT

To the City Council
Star City, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Water, Sewer and Sanitation Department of Star City, Arkansas's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's federal programs for the year ended December 31, 2021. The Department's 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 Department complied, in all material respects, with the 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, 2021

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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 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 Department 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 Department's 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 Department's federal programs.

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 Department's 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 GAAS, *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 the Department's compliance with the requirements of the each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 Department's 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 Department's 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 Department's 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

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 “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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist.

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.

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 Guide. Accordingly, this report is not suitable for any other purpose.



Lisa Stephens Certified Public Accountant, PLC
Conway, Arkansas
September 27, 2022

**WATER, SEWER AND SANITATION DEPARTMENT
OF STAR CITY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

No

Federal Awards

Internal control over major Federal program:

Material weakness(es) identified?

No

Significant deficiency(ies) identified?

No

Type of auditor's report issued on compliance for major Federal program:

Unmodified

Any instances of noncompliance required to be reported?

No

Identification of major Federal program:

CFDA Numbers:

Name of Program or Cluster:

10.760

United States Department of Agriculture:
Water and Waste Disposal Systems for Rural
Communities

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

Auditee qualified as a low-risk auditee?

No

**WATER, SEWER AND SANITATION DEPARTMENT
OF STAR CITY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2021**

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

**WATER, SEWER AND SANITATION DEPARTMENT
OF STAR CITY, ARKANSAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2021**

No matters reported.