

**Independent Accountant's Report and Financial Statements**

**STEPHENS WATER AND SEWER SYSTEM**

**For the Year Ended December 31, 2019**

# STEPHENS WATER AND SEWER SYSTEM

## Contents

	<u>Pages</u>
<b>Independent Accountant's Report</b>	2-3
<b>Financial Statements</b>	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6-7
Notes to Financial Statements	8-13
<b>Report on Internal Control Over Financial Reporting and on Compliance and     Other Matters Based on an Audit of the Financial Statements Performed in     Accordance with <i>Government Auditing Standards</i></b>	14-15
<b>Schedule of Findings and Responses</b>	16

# **PARKS & COMPANY PLC**

A PROFESSIONAL LIMITED COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

441 NORTH WASHINGTON AVENUE  
EL DORADO, AR 71730  
(870) 862-3401  
FAX (870) 862-0936

**MEMBER**  
**AMERICAN INSTITUTE OF CPAS**

**MEMBER**  
**ARKANSAS SOCIETY OF CPAS**

## **INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and City Council Members  
Stephens Water and Sewer System  
Stephens, Arkansas

We have audited the accompanying financial statements of Stephens Water and Sewer System (the System) of the City of Stephens, Arkansas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stephens Water and Sewer System of the City of Stephens, AR, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Stephens Water and Sewer System and do not purport to, and do not present fairly the financial position of the City of Stephens, AR, as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year 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.

### **Other Matters**

Management has omitted the management 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 Government 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.

### **Other Report Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2022 on our consideration of the Club's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Parks & Company PLC*

El Dorado, Arkansas  
June 10, 2022

**STEPHENS WATER AND SEWER SYSTEM**  
**Statement of Net Position**  
**December 31, 2019**

**ASSETS AND DEFERRED OUTFLOWS**

**Current Assets**

Cash - unrestricted	\$ 298,156
Certificates of deposit	159,170
Accounts receivable, net	25,746
Inventory	19,057
Other assets	5,540
Total current assets	<u>507,669</u>

**Non-current Assets**

Cash - restricted	147,577
Certificates of deposit - restricted	5,365
Total non-current assets	<u>152,942</u>

**Capital Assets**

Property, plant and equipment, net	<u>3,106,266</u>
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<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b><u>\$ 3,766,877</u></b>
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**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

**Current Liabilities**

Accounts payable and accrued expenses	\$ 5,138
Notes payable - current portion	38,609
Total current liabilities	<u>43,747</u>

**Non-current Liabilities**

Notes payable	114,162
Customer meter deposits	29,341
Total liabilities	<u>187,250</u>

**Net Position**

Net investment in capital assets	2,953,495
Restricted	152,942
Unrestricted	473,190
Total net position	<u>3,579,627</u>

<b>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>	<b><u>\$ 3,766,877</u></b>
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The accompanying notes are an integral part of these financial statements.

**STEPHENS WATER AND SEWER SYSTEM**  
**Statement of Revenues, Expenses and Change in Net Position**  
**For the Year Ended December 31, 2019**

<b>Operating Revenues</b>	
Usage charges	\$ 279,145
Other	<u>9,633</u>
Total operating revenues	<u>288,778</u>
 <b>Operating Expenses</b>	
Salaries and wages	71,034
Payroll and sales taxes	10,006
Utilities and telephone	55,138
Maintenance, repair and equipment expense	21,140
Insurance	3,223
Parts and supplies	16,278
Professional fees	14,000
Office operations	15,404
Depreciation	<u>152,253</u>
Total operating expenses	<u>358,476</u>
<b>Operating income (loss)</b>	<u>(69,698)</u>
 <b>Non-operating revenues (expenses)</b>	
Interest income	4,297
Interest expense	<u>(8,081)</u>
Total non-operating revenues (expenses)	<u>(3,784)</u>
<b>Change in net position</b>	(73,482)
<b>Net Position, beginning of year</b>	<u>3,653,109</u>
<b>Net Position, end of year</b>	<u><u>\$ 3,579,627</u></u>

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

**STEPHENS WATER AND SEWER SYSTEM**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Sales - use charges	\$ 331,611
Other receipts and deposits	9,633
Salaries and wages	(71,034)
Net meter deposits	2,152
Payroll taxes	(10,236)
Utilities and telephone	(55,138)
Maintenance, repairs and supplies	(25,704)
Insurance	(3,223)
Parts and supplies	(18,928)
Professional fees	(14,000)
Office operations	<u>(15,404)</u>
Net cash provided by operating activities	129,729

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Fixed asset purchases	<u>(8,165)</u>
Net cash provided (used) by capital and related financing activities	<u>(8,165)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income from savings and CDs	4,297
Reinvestment of interest earned on CDs	(2,733)
Principal payments on debt	(36,996)
Interest payments on debt	<u>(8,081)</u>
Net cash provided (used) by financing activities	<u>(43,513)</u>
Increase (decrease) in cash	78,051
Cash, beginning of year	<u>367,682</u>
Cash, end of year	<u><u>\$ 445,733</u></u>

**Presented on Statement of Net Position as follow:**

Current assets	
Cash - unrestricted	\$ 298,156
Non-current assets	
Cash - restricted	<u>147,577</u>
	<u><u>\$ 445,733</u></u>

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

**STEPHENS WATER AND SEWER SYSTEM**  
**Statement of Cash Flows (continued)**  
**For the Year Ended December 31, 2019**

**Reconciliation of net operating income to  
net cash provided by operating activities:**

Net operating income (loss)	<u>\$ (69,698)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	152,253
(Increase) decrease in receivables	52,854
(Increase) decrease in inventory	(4,392)
Increase (decrease) in payables and payroll liabilities	<u>(1,288)</u>
Total adjustments	<u>199,427</u>
Net cash provided by operating activities	<u><u>\$ 129,729</u></u>

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

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Operations and Reporting Entity***

The Stephens Water and Sewer System (the "System") is an enterprise fund of the City of Stephens, Arkansas governed by the city's 7 member council. The System provides water and sewer services to customers in the City of Stephens.

***Basis of Accounting and Presentation***

The System is accounted for as an enterprise fund and uses the accrual basis of accounting. The System's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental enterprise units. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are prepared on the basis of GASB Statement Number 34, *Basic Financial Statements, Management Discussion and Analysis for State and Local Governments* and related standards. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the System applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the System are charges to customers for water and sewer sales and services. Operating expenses for the System include the cost of pumping, treating and delivering water and sewer discharge; administrative services; and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, the System's policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

***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 amounts of assets and liabilities and disclosure 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.

***Deposits and Investments***

Cash includes amounts in demand and time deposit accounts. The System classifies all certificates of deposit as investments on its Statement of Net Position. Certificates of deposit are reported at cost, which approximates fair value. The System had no other investment types at December 31, 2019.

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Receivables***

The System uses the allowance methodology for estimating possible uncollectible accounts based on historical loss ratios.

***Inventories***

Inventories are valued at cost, which approximates market value.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The System uses the following estimated useful lives:

Land improvements	10 – 40 years
Buildings	10 – 40 years
Equipment	5 – 40 years

***Net Position***

Net position of the System is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation reduced by the outstanding balances of borrowings, if any, used to finance the purchase or construction of those assets. *Restricted net position* represents assets which are restricted either for debt service or capital projects. Net position restricted for debt service is related to assets which are restricted for use pursuant to borrowing agreements. *Unrestricted net position* is the remaining assets less the remaining liabilities that do not meet the definition of net position invested in capital assets, net of related debt; or net position restricted for debt service or capital projects.

***Revenue Recognition***

Revenues for water supply, distribution and wastewater treatment services are recognized in the period during which the services are provided. Revenue does not include an estimate of charges for services provided but unbilled at year end. The System recognizes revenue as water and wastewater services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied.

Generally, payment is due within 30 days once a bill is issued to a customer. Sales tax and other taxes or fees that are collected on behalf of government authorities, concurrent with revenue-producing activities, are excluded from revenue.

***Compensated Absences***

System policies permit full-time employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense is recognized as vacation benefits are used. Vacation benefits are lost if not used by the end of the year. Sick leave benefits are recognized only when the time off occurs.

***Subsequent Events***

Management has evaluated subsequent events June 10, 2022, the date the financial statements were available to be issued.

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 2: DEPOSITS AND INVESTMENTS**

At December 31, 2019, the System's deposits consisted of demand deposits and its investments consisted of certificates of deposit.

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At December 31, 2019, the System held no debt securities.

***Custodial Risk***

Custodial risk is the risk that, in the event of failure of a depository institution, the System will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2019, the System had bank balances of \$618,929. All balances were covered by FDIC insurance and securities pledged by the bank.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the System's investing activities are managed under the stewardship of the Stephens City Council. Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of the United States government (for which the full faith and credit of the United States government are pledged), (2) certificates of deposit at savings and loan associations or federally-insured banks when secured by acceptable collateral, (3) savings accounts at savings and loan associations and banks, to the extent fully insured, and (4) any bond, note or other indebtedness insured by the United States government or those agencies insured and guaranteed by the federal government.

The System can legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts in excess of insured amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not purchase foreign investments.

***Concentration of Credit Risk***

The System maintained all of its deposits and investments, consisting of cash and certificates of deposit, at Security Bank with a fair value of \$618,929 at December 31, 2019. Security Bank has pledged \$465,000 of securities for the System's deposits in addition to FDIC insurance coverage of \$250,000. As a result, all System deposits were fully insured at December 31, 2019.

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 2: DEPOSITS AND INVESTMENTS (Continued)**

***Fair Value Measurements***

U.S. GAAP requires the System to disclose fair value measurements at the statement of net position date. The FASB has established a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements).

At December 31, 2019, the System's investments consisted of certificates of deposit. The certificates are valued at cost which approximated fair value. There were no changes in the methodology used during the year ended December 31, 2019.

***Investment Income***

Investment income consisted of \$4,297 earned on demand deposit accounts and certificates of deposit.

**NOTE 3: CAPITAL ASSETS**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Property held under capital lease	\$ 581,319	-	-	581,319
Water system	456,156	-	-	456,156
Distribution Mains	2,955,961	-	-	2,955,961
Machinery and equipment	970,515	8,165	-	978,680
Sewer plant	615,346	-	-	615,346
Vehicles	38,297	-	-	38,297
Office equipment	32,550	-	-	32,550
<b>Total capital assets</b>	5,650,144	<u>8,165</u>	<u>-</u>	5,658,309
Less accumulated depreciation:	(2,399,790)	<u>(152,253)</u>	<u>-</u>	(2,552,043)
<b>Capital assets, net</b>	<u>\$ 3,250,354</u>			<u>\$ 3,106,266</u>

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable at December 31, 2019, consisted of the following:

Water, Sewer, Safe Act and Penalties	\$ 35,432
Allowance for doubtful accounts	<u>(9,685)</u>
Accounts receivable, net	<u>\$ 25,747</u>

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 5: LONG-TERM DEBT**

Long-term debt as of December 31, 2019 consists of the following:

4.15% revenue improvement bond payable in semiannual installments of \$17,768 including interest through June 2023 secured by irrevocable pledge of and lien on the system's revenue	\$ 103,210
5.00% deferred loan payable in annual installments of \$6,364 including interest through September 2026 secured by property and equipment	36,825
6.5% loan collateralized by equipment, payable in installments of \$287.78 through March 2024	<u>12,736</u>
	152,771
Less: Current portion of long-term debt	<u>(38,609)</u>
Long-term debt net of current portion	<u><u>\$ 114,162</u></u>

The aggregate maturities of the long-term debt at December 31, 2019 are as follows:

2020	38,609
2021	40,335
2022	42,140
2023	13,533
2024	5,498
Thereafter	<u>12,656</u>
Total	<u><u>\$ 152,771</u></u>

**STEPHENS WATER AND SEWER SYSTEM**  
**Notes to Financial Statements**  
**December 31, 2019**

**NOTE 6: WATER AND SEWER RATES**

Residential customer's water rates were \$19.70 for the first 1,000 gallons of water consumption per month or portion thereof January through November. For consumption in excess of 1,000 gallons, the rate was \$4.78 per 1,000 gallons used. Customers outside the City limits were charged \$21.06 for the first 1,000 gallons of water consumption per month or portion thereof. For consumption in excess of 1,000 gallons, the charge was \$4.78 per 1,000 gallons used. Sewer rates were \$18.17 for the first 1,000 gallons and \$3.70 per 1,000 gallons thereafter.

**NOTE 7: METER DEPOSITS**

The System maintains an estimate of water and sewer deposits from customers. Total estimated deposits were \$29,341 at December 31, 2019.

The following bank deposits are designated for repayment of member deposits:

Commercial checking	\$ 29,768
Certificates of deposit	5,366
Total	<u><u>\$ 35,134</u></u>

**NOTE 8: RESTRICTED CASH**

The System maintains the following restricted cash accounts for compliance with debt instruments and meter deposit liabilities at December 31, 2019:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Restricted cash accounts			
Meter checking	29,768	-	29,768
Reserve Account	3,333	-	3,333
Depreciation Reserve	105,827	8,649	114,476
Total	<u><u>\$ 138,928</u></u>	<u><u>\$ 8,649</u></u>	<u><u>\$ 147,577</u></u>

**NOTE 9: INSURANCE**

The City of Stephens utilizes the State of Arkansas Workers' Compensation Plan. Under this plan, the City is billed by the state for the City's claims.

Employees are covered under the state blanket bond coverage through Arkansas Fidelity Bond Trust with \$250,000 Employee Bond Coverage with a \$1,000 deductible. This bond covers all City employees in cash handling positions including those at the System.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

***Sewer Discharge Permit***

The Arkansas Department of Environmental Quality requires that the sewer discharge system meet certain requirements in order to maintain the System's sewer discharge permit. As of December 31, 2019, the System has complied with all of these requirements. This permit must be renewed annually.

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A PROFESSIONAL LIMITED COMPANY  
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441 NORTH WASHINGTON AVENUE  
EL DORADO, AR 71730

(870) 862-3401  
FAX (870) 862-0936

MEMBER  
AMERICAN INSTITUTE OF CPAS

MEMBER  
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## INDEPENDENT ACCOUNTANT'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

The Honorable Mayor and City Council Members  
City of Stephens, 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 Stephens Water and Sewer System (the System), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 10, 2022.

### Internal Control over Financial Reporting

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

*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 combination of significant 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 to those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified deficiency 2019-001 in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness.

**Stephens Water & Sewer System**  
**Report on Internal Control over Financial Reporting and Compliance (continued)**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System'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*.

**System's Response to Findings**

The System's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**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 result of that testing, and not to provide an opinion on the effectiveness of the system'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 system's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Parks & Company PLC*

June 10, 2022

**Stephens Water and Sewer System  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

**Findings – Financial Statement Audits**

**2019-001 Segregation of duties**

Condition: The System has one person who receives customer payments, prepares the deposits and posts the transactions to the customer's accounts.

Criteria: Internal controls should be in place to provide adequate segregation of duties with regard to cash receipts and disbursements. When proper segregation of duties is not possible due to staff size limitations, the City Council or other city employees should act as a mitigating control.

Cause: The System has only one person in the office.

Effect: Due to lack of proper segregation of duties there is the potential for material misstatement of the financial statements or material misappropriation of assets due to error or fraud occurring and not being prevented or detected in a timely manner.

Recommendation: Procedures should be implemented whereby:

- 1) A person other than the water/sewer clerk receives all payments (mail or in person); makes a log of payments received, provides the log to a different person (not the water/sewer clerk) who should then prepare and make the bank deposit. The log and deposit slips should be given to the water/sewer clerk for entry into the water/sewer accounting system
- 2) All customer account adjustments should be reviewed by an adequate level of management.
- 3) All credits and adjustments to customer accounts should be reviewed and approved by the City Council when adequate segregation of duties at the staff level is not possible.

**Response:** The City Council acknowledges the lack of segregation of duties in the water department. It is the goal of the Council to implement the recommendations to the best of their ability and to serve as a mitigating control due to the small staff size. The City Council reviews and approves adjustments to customer accounts at its regular monthly council meetings.