

Independent Accountant's Report and Financial Statements

STEPHENS WATER AND SEWER SYSTEM

For the Year Ended December 31, 2021

STEPHENS WATER AND SEWER SYSTEM

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Stephens Water and Sewer System of the City of Stephens, Arkansas (System), as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of December 31, 2021 and the changes in its financial position and cash flows for the year 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. 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 System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, Arkansas, as of December 31, 2021, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities 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 generally accepted 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment 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 System'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System'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 management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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 January 18, 2023 on our consideration of the System'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 System's internal control over financial reporting and compliance.


El Dorado, Arkansas
January 18, 2023

STEPHENS WATER AND SEWER SYSTEM
Statement of Net Position
December 31, 2021

ASSETS AND DEFERRED OUTFLOWS

Current Assets

Cash - unrestricted	\$ 256,104
Certificates of deposit	163,875
Accounts receivable, net	32,233
Inventory	19,057
Other assets	5,540
Total current assets	<u>476,809</u>

Non-current Assets

Cash - restricted	171,673
Certificates of deposit - restricted	5,463
Total non-current assets	<u>177,136</u>

Capital Assets

Property, plant and equipment, net	<u>2,955,322</u>
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TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 3,609,267</u></u>
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LIABILITIES, DEFERRED INFLOWS AND NET POSITION

Current Liabilities

Accounts payable and accrued expenses	\$ 9,255
Notes payable - current portion	42,140
Contracts payable - current portion	26,041
Total current liabilities	<u>77,436</u>

Non-current Liabilities

Notes payable	31,652
Contracts Payable	30,442
Customer meter deposits	32,487
Total non-current liabilities	<u>94,581</u>

Total Liabilities	<u>172,017</u>
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Net Position

Net investment in capital assets	2,881,530
Restricted	177,136
Unrestricted	378,584
Total net position	<u>3,437,250</u>

TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u><u>\$ 3,609,267</u></u>
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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, 2021

Operating Revenues	
Usage charges	\$ 332,222
Other	5,957
Total operating revenues	338,179
 Operating Expenses	
Salaries and wages	103,972
Payroll taxes	5,263
Utilities and telephone	36,864
Maintenance, repair and equipment expense	29,272
Insurance	5,912
Parts and supplies	28,495
Professional fees	6,000
Office operations	28,413
Subscriptions and dues	4,760
Depreciation	163,922
Total operating expenses	412,873
Operating income (loss)	(74,694)
 Non-operating revenues (expenses)	
Interest income	3,278
Interest expense	(4,846)
Total non-operating revenues (expenses)	(1,568)
Change in net position	(76,262)
Net Position, beginning of year	3,513,512
Net Position, end of year	\$ 3,437,250

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, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Sales - use charges	\$ 324,829
Other receipts and deposits	5,957
Salaries and wages	(103,972)
Net meter deposits	1,261
Payroll taxes	(5,263)
Utilities and telephone	(36,864)
Maintenance, repairs and supplies	(29,272)
Insurance	(5,912)
Parts and supplies	(28,495)
Professional fees	(6,000)
Office operations	<u>(27,422)</u>
Net cash provided by operating activities	88,847

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Fixed asset purchases	<u>(18,318)</u>
Net cash provided (used) by capital and related financing activities	<u>(18,318)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income from savings and CDs	3,278
Reinvestment of interest earned on CDs	(2,821)
Principal payments on debt	(84,096)
Interest payments on debt	<u>(4,846)</u>
Net cash provided (used) by financing activities	<u>(88,485)</u>
Increase (decrease) in cash	(17,956)
Cash, beginning of year	<u>445,733</u>
Cash, end of year	<u><u>\$ 427,777</u></u>

Presented on Statement of Net Position as follow:

Current assets	
Cash - unrestricted	\$ 256,104
Non-current assets	
Cash - restricted	<u>171,673</u>
	<u><u>\$ 427,777</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, 2021

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

Net operating income (loss)	<u>\$ (74,694)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	163,922
(Increase) decrease in receivables	(5,184)
Increase (decrease) in payables and payroll liabilities	<u>4,803</u>
Total adjustments	<u>163,541</u>
Net cash provided by operating activities	<u><u>\$ 88,847</u></u>

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

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

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, 2021.

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

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 through January 18, 2023, the date the financial statements were available to be issued.

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

NOTE 2: DEPOSITS AND INVESTMENTS

At December 31, 2021, 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, 2021, 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, 2021, the System had bank balances of \$608,401. 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 \$608,401 at December 31, 2021. 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, 2021.

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

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, 2021, 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, 2021.

Investment Income

Investment income consisted of \$3,278 earned on demand deposit accounts and certificates of deposit.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Property held under capital lease	\$ 581,319	-	-	581,319
Water system	580,390	4,000	-	584,390
Distribution Mains	2,955,961	-	-	2,955,961
Machinery and equipment	995,560	8,918	-	1,004,478
Sewer plant	615,346	5,400	-	620,746
Vehicles	38,297	-	-	38,297
Office equipment	32,550	-	-	32,550
<i>Total capital assets</i>	5,799,423	<u>18,318</u>	<u>-</u>	5,817,741
Less accumulated depreciation:	<u>(2,698,497)</u>	<u>(163,922)</u>	<u>-</u>	<u>(2,862,419)</u>
Capital assets, net	<u>\$ 3,100,926</u>			<u>\$ 2,955,322</u>

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2021, consisted of the following:

Water, Sewer, Safe Act and Penalties	\$ 41,918
Allowance for doubtful accounts	<u>(9,685)</u>
Accounts receivable, net	<u>\$ 32,233</u>

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

NOTE 5: LONG-TERM DEBT

Long-term debt at December 31, 2021 consisted 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	\$ 39,066
5.00% deferred loan payable in annual installments of \$6,364 including interest through September 2026 secured by property and equipment	27,553
6.5% loan collateralized by equipment, payable in installments of \$287.78 through March 2024	<u>7,173</u>
	73,792
Less: Current portion of long-term debt	<u>(42,140)</u>
Long-term debt net of current portion	<u><u>\$ 31,652</u></u>

The aggregate maturities of the long-term debt at December 31, 2020 are as follows:

2022	42,140
2023	13,533
2024	6,286
2025	5,772
2026	<u>6,061</u>
Total	<u><u>\$ 73,792</u></u>

NOTE 6: CONTRACTS PAYABLE

Contracts Payable as of December 31, 2021 relate to a contract with Utility Service Co. for the refurbishment and maintenance of a water tank. During 2021, \$47,681 was paid on the contract. The remaining contract payable at December 31, 2021 was \$56,483.

STEPHENS WATER AND SEWER SYSTEM
Notes to Financial Statements
December 31, 2021

NOTE 6: WATER AND SEWER RATES

Residential customer's water rates were \$20.69 for the first 1,000 gallons of water consumption per month or portion thereof. For consumption in excess of 1,000 gallons, the rate was \$5.02 per 1,000 gallons used. Customers outside the City limits were charged \$21.69 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 \$5.02 per 1,000 gallons used. Sewer rates were \$19.09 for the first 1,000 gallons and \$3.88 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 \$33,684 at December 31, 2021.

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

Commercial checking	\$ 33,205
Certificates of deposit	5,463
Total	<u>\$ 38,668</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, 2021:

	<u>Water System</u>	<u>Sewer System</u>	<u>Total</u>
Restricted cash accounts			
Meter checking	33,205	-	33,205
Reserve Account	3,356	-	3,356
Depreciation Reserve	126,433	8,679	135,112
Total	<u>\$ 162,994</u>	<u>\$ 8,679</u>	<u>\$ 171,673</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, 2021, the System has complied with all of these requirements. This permit must be renewed annually.

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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, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 18, 2023.

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 2021-001 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

El Dorado, Arkansas
January 18, 2023

**Stephens Water and Sewer System
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Findings – Financial Statement Audits

2021-001 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.