

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

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

DECEMBER 31, 2020 AND 2019

**LISA STEPHENS CERTIFIED PUBLIC
ACCOUNTANT, PLC**



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WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the City Council
Star City, Arkansas

We have audited the accompanying financial statements of the business-type activities of the Water, Sewer and Sanitation Department of Star City, Arkansas (the Department), a component unit of Star City, as of and for the years ended December 31, 2020 and 2019, and the statements of net position, revenues, expenses and changes in net position and cash flows, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management 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.

Auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Water, Sewer and Sanitation Department of Star City, Arkansas, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The supplementary information, as listed on the table of contents on pages 19 to 23, is presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 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 Department and do not purport to, and do not present fairly the financial position of the City of Star City, Arkansas, as of December 31, 2020 and 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.

Lisa Stephens

Lisa Stephens Certified Public Accountant, PLC
Conway, Arkansas
February 2, 2022

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 427,235	\$ 450,370
Prepaid insurance	5,616	8,687
Accounts receivable, net of allowance for bad debts	188,660	191,913
Inventories	9,254	8,573
Total current assets	630,765	659,543
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	203,347	198,655
Capital assets, net of accumulated depreciation	3,535,348	3,378,637
Total non-current assets	3,738,695	3,577,292
	\$ 4,369,460	\$ 4,236,835
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 42,734	\$ 40,646
Advances from USDA	49,618	-
Accounts payable and accrued liabilities	36,519	41,196
Total current liabilities	128,871	81,842
LONG-TERM DEBT, NET OF CURRENT MATURITIES	882,448	746,471
LIABILITIES PAID FROM RESTRICTED ASSETS		
Customer deposits	55,894	54,908
TOTAL LIABILITIES	1,067,213	883,221
NET POSITION		
Net investment in capital assets	2,560,548	2,591,520
Restricted		
Restricted for debt service	80,529	80,392
Restricted for water improvement	55,894	54,908
Restricted for other	63,404	63,355
Unrestricted	538,352	563,439
	3,298,727	3,353,614
	\$ 4,365,940	\$ 4,236,835

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, 2020 AND 2019**

	2020	2019
OPERATING REVENUES		
Water revenues	\$ 316,341	\$ 339,173
Sewer revenues	364,242	317,297
Sanitation revenues	272,090	269,548
Other operating revenue	33,321	25,042
Grant revenue	-	27,229
Total operating revenues	985,994	978,289
OPERATING EXPENSES		
Salaries	287,982	259,705
City council salary reimbursement	31,597	36,318
Utilities	58,266	66,231
Insurance	12,361	9,544
Repairs and maintenance	19,498	28,402
Payroll taxes	22,393	20,429
Supplies	1,650	4,004
Rent	13,200	15,600
Vehicle and equipment	35,126	32,139
Postage	4,777	4,914
Depreciation	195,197	201,658
Contract sanitation	179,881	171,417
Fuel expense	12,672	12,207
Health insurance	43,234	36,474
Employee retirement	42,246	39,676
Professional fees	9,953	17,955
Other operating expenses	25,870	30,747
Total operating expenses	995,903	987,420
OPERATING INCOME (LOSS)	(9,909)	(9,131)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	1,446	4,181
Interest expense	(42,904)	(41,669)
	(41,458)	(37,488)
CHANGE IN NET POSITION	(51,367)	(46,619)
NET POSITION, BEGINNING OF YEAR	3,353,614	3,400,233
NET POSITION, END OF YEAR	\$ 3,302,247	\$ 3,353,614

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 955,926	\$ 941,876
Cash received from grants	-	27,229
Cash payments for services and supplies	(387,160)	(393,160)
Cash payments to employees and council members	(382,512)	(392,602)
Cash provided by operating activities	186,254	183,343
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net increase in customer deposits	986	339
Net cash provided by noncapital financing activities	986	339
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of property and equipment	(352,449)	(116,516)
Proceeds from USDA note and advances	223,374	-
Principal payments on note obligations	(35,691)	(43,863)
Interest paid on bond and note obligations	(42,363)	(41,669)
Net cash (used) by capital and related financing activities	(207,129)	(202,048)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,446	4,181
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(18,443)	(14,185)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	649,025	663,210
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 630,582	\$ 649,025

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, 2020 AND 2019**

	2020	2019
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (9,909)	\$ (9,131)
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	195,197	201,658
(Increase)/decrease in:		
Accounts receivable	3,253	(9,834)
Inventories	(681)	2,046
Prepaid insurance	3,071	(4,500)
Increase/(decrease) in:		
Accounts payable and accrued liabilities	(4,677)	3,104
	\$ 186,254	\$ 183,343

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 Presentation

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Departments assets, liabilities, net assets, revenues, and expenses. 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").

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 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, 2020 and 2019 was \$31,237 and \$10,044, 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 cash and cash equivalents 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, 2020 AND 2019

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, 2020 AND 2019

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.”

Reclassifications

Certain reclassifications were made to the amounts in the 2019 financial statements in order to conform to the 2020 financial statement presentation.

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.

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Fund Descriptions and Restricted Cash Fund Requirements - continued

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.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2: CAPITAL ASSETS

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

	<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>\$ 3,535,348</u>

	<u>2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019</u>
Land and easements	\$ 48,042	\$ -	\$ -	\$ 48,042
Water plant	3,350,378	-	-	3,350,378
Sewer plant	3,622,776	56,839	-	3,679,615
Sanitation plant	27,400	-	-	27,400
Machinery and equipment	1,052,557	59,677	-	1,112,234
	8,101,153	116,516	-	8,217,669
Accumulated depreciation	(4,637,374)	(201,658)	-	(4,839,032)
	<u>\$ 3,463,779</u>			<u>\$ 3,378,637</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 3: CASH AND RESTRICTED FUNDS

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 \$236,240 and \$335,270 at December 31, 2020 and 2019, respectively.

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

	2020	2019
Unrestricted:		
Petty cash	\$ 400	\$ 400
Revenue fund	87,755	86,867
Sewer fund	95,419	55,340
Sewer operations & maintenance fund	50,733	50,566
Water operations & maintenance fund	51,896	75,384
Water improvement	61,291	61,089
Escrow fund	4,965	4,958
Sewer construction fund	100	-
Sanitation fund	74,676	115,766
	427,235	450,370
Restricted:		
Debt service reserve	1,001	-
Short-lived asset reserve	2,510	-
Depreciation fund	63,404	63,355
Meter deposit fund	55,894	54,908
Bond service reserve fund	80,529	80,392
	203,338	198,655
	\$ 630,573	\$ 649,025

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4: LONG-TERM DEBT

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

	<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 2.125%, secured by all revenues.		173,756	-	173,756
Less current maturities	(40,646)	40,646	(42,734)	(42,734)
	<u>\$ 746,471</u>			<u>\$ 882,448</u>

	<u>2018</u>	<u>Additions</u>	<u>Payments</u>	<u>2019</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.	\$ 830,980	\$ -	\$(43,863)	\$ 787,117
Less current maturities	(38,668)	38,668	(40,646)	(40,646)
	<u>\$ 792,312</u>			<u>\$ 746,471</u>

The Department was in compliance with the provisions of the bond ordinances approving the issuance of the revenue bonds during the years ended December 31, 2020 and 2019. Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 42,726	\$ 36,819	\$ 79,545
2022	44,911	34,633	79,544
2023 - 2027	261,467	136,255	397,722
2028 - 2032	335,556	62,166	397,722
2033	61,811	1,797	63,608
	<u>\$ 746,471</u>	<u>\$ 271,670</u>	<u>\$ 1,018,141</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 year ended December 31, 2020 was \$42,246.

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 \$13,200 and \$15,600 was paid to the City General Fund for each of the years ended December 31, 2020 and 2019, 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 \$31,597 and \$36,618 for Council members' salaries for the years ended December 31, 2020 and 2019, respectively.

NOTE 7: COMMITMENTS

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, 2020 will be material.

NOTE 8: EVALUATION OF SUBSEQUENT EVENTS

The Department has evaluated subsequent events through February 2, 2022, the date which the audit was available to be issued.

In October, 2020, the first draw was taken on the new USDA debt obtained to improve the city wastewater system facility. The engineering study & report, preliminary and final design and bidding and negotiating phases were completed, and construction had begun before the end of 2020.

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8: EVALUATION OF SUBSEQUENT EVENTS (CONTINUED)

The Department's management has determined that there were no other significant subsequent events that should be disclosed in the balance sheet or in the notes to the balance sheet.

LISA STEPHENS CERTIFIED PUBLIC ACCOUNTANT, PLC

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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 year ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated February 2, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Internal Control over Financial Reporting (continued)

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
February 2, 2022

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF ACTIVITY IN FUNDS REQUIRED BY BOND ORDINANCE
YEAR ENDED DECEMBER 31, 2020**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Interest Earned</u>	<u>Withdrawals</u>	<u>Ending Balance</u>
Bond and debt service reserve fund	\$ 80,392	\$ -	\$ 137	\$ -	\$ 80,529
Depreciation fund	63,355	-	49	-	63,404
Debt service reserve fund	-	1,010	-	(9)	1,001
Short-lived asset fund	-	2,510	-	-	2,510
	<u>\$ 143,747</u>	<u>\$ 3,520</u>	<u>\$ 186</u>	<u>\$ (9)</u>	<u>\$ 147,444</u>

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF INSURANCE COVERAGE
DECEMBER 31, 2020**

<u>Description of Coverage</u>	<u>Policy Period</u>	<u>Amount of Coverage</u>
<u>Property Damage</u>		
Water tank and pumps	January 7, 2020 through January 6, 2021	\$ 823,394
Sewer plant and pumps	January 7, 2020 through January 6, 2021	\$ 196,936
Sanitation shop building and contents	January 7, 2020 through January 6, 2021	\$ 42,436
Vehicles and equipment	January 7, 2020 through January 6, 2021	\$ 335,640
<u>Employee Dishonesty</u>		
Blanket fidelity bond	July 1, 2019 through June 30, 2020	\$ 300,000

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF TITLES AND NAMES OF PRINCIPAL OFFICERS
DECEMBER 31, 2020**

<u>TITLE</u>	<u>NAME</u>
Mayor	Paul Carter
City Council Members	<ol style="list-style-type: none">1. Renee Montgomery2. John Davis3. Sandra Harper4. Ashley Steed5. David McCoy6. Tim Drake
Water Superintendent	Thomas Linzy
Utilities Clerks	<ol style="list-style-type: none">1. Lea Ann Bradley2. Kathy Weast

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS
SCHEDULE OF CUSTOMERS AND RATES
YEAR ENDED DECEMBER 31, 2020 AND 2019**

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>
Residential Customers:			
Minimum charge (first 1,500 gallons)*	7.50	13.50	12.50
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 1,500 gallons)*	9.36	17.50	20.00
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 1,500 gallons)*	18.75	18.75	20.00
Minimum charge (next 500 gallons)	5.99	N/A	N/A
Next 10,000 gallons (charge per 1,000 gallons)	4.49	2.44	N/A
Next 10,000 gallons (charge per 1,000 gallons)	2.77	2.44	N/A
Additional gallons (charge per 1,000 gallons)	2.02	2.44	N/A

Reconnect Fee

Reconnect Fee \$40 during business hours

Reconnect Fee \$60 after business hours

* Minimum charge for sewer is for the first 2,000 gallons.

Total Number of Customers:

2020	<u><u>997</u></u>
2019	<u><u>1,006</u></u>

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, 2020

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Water revenues	\$ 316,341	\$ 384,000	\$ (67,659)
Sewer revenues	364,242	372,000	(7,758)
Sanitation revenues	272,090	306,500	(34,410)
Other income	33,321	59,000	(25,679)
Interest income	1,446	450	996
	<u>987,440</u>	<u>1,121,950</u>	<u>(134,510)</u>
OPERATING EXPENSES			
Salaries	287,982	283,000	4,982
City council salary reimbursement	31,597	34,000	(2,403)
Utilities	58,266	73,000	(14,734)
Insurance	12,361	16,500	(4,139)
Repairs and maintenance	19,498	155,700	(136,202)
Payroll taxes	22,393	27,200	(4,807)
Supplies	1,650	3,500	(1,850)
Rent	13,200	15,000	(1,800)
Vehicle and equipment	35,126	74,000	(38,874)
Postage	4,777	4,800	(23)
Contract sanitation	179,881	126,500	53,381
Fuel expense	12,672	17,000	(4,328)
Health insurance	43,234	42,000	1,234
Employee retirement	42,246	40,250	1,996
Professional fees	9,953	-	9,953
Other operating expenses	25,870	130,500	(104,630)
Interest expense	42,904	41,500	1,404
Capital outlay	351,908	246,600	105,308
Bond principal payments	35,691	41,500	(5,809)
	<u>1,231,209</u>	<u>1,372,550</u>	<u>(141,341)</u>
Total expenditures and capital outlays	<u>\$ 1,231,209</u>	<u>\$ 1,372,550</u>	<u>\$ (141,341)</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, 2020**

	Actual	Budget	Variance
EXCESS OF REVENUES OVER EXPENDITURES, CAPITAL OUTLAYS AND TRANSFERS	(243,769)	(250,600)	6,831
FUND NET ASSETS, BEGINNING (NON-GAAP BUDGETARY BASIS)	3,353,614	3,353,614	-
FUND NET ASSETS, ENDING (NON-GAAP BUDGETARY BASIS)	3,109,845	\$ 3,103,014	\$ 6,831
ADJUSTMENTS TO GAAP			
Bond principal payments (1)	35,691		
Capital outlay	351,908		
Depreciation and amortization (2)	(195,197)		
	192,402		
FUND NET ASSETS, ENDING (GAAP BASIS)	\$ 3,302,247		