

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

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

**DECEMBER 31, 2016 AND 2015**

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

**DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITOR'S REPORT

Members of 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, which comprise the statements of assets, liabilities and fund net position as of December 31, 2016 and 2015, and the statements of revenues, expenses and changes in fund net assets and cash flows and the related notes to the financial statements for the years then ended 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 an opinion 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.

## **Auditors Responsibility (Continued)**

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 financial position of the Water, Sewer and Sanitation Department of Star City, Arkansas, as of December 31, 2016 and 2015, and the 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 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 supplemental information, as listed on the table of contents on pages 17 to 22, 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 September 29, 2017 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, 2016 and 2015, 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.

Little Rock, Arkansas  
September 29, 2017

  
LOVETT & COMPANY, LTD.

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

**STATEMENTS OF ASSETS, LIABILITIES AND FUND NET POSITION**

**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 599,604	\$ 513,764
Certificates of deposit	46,408	106,381
Accounts receivable	160,642	149,477
Inventories	10,704	10,866
Total current assets	<u>817,358</u>	<u>780,488</u>
<b>CAPITAL ASSETS</b>		
Land and easements	42,143	42,143
Water plant	3,350,378	3,350,378
Sewer plant	3,587,276	3,577,809
Sanitation plant	27,400	27,400
Machinery and equipment	952,830	941,778
	<u>7,960,027</u>	<u>7,939,508</u>
Accumulated depreciation	<u>(4,241,217)</u>	<u>(4,055,464)</u>
Net capital assets	<u>3,718,810</u>	<u>3,884,044</u>
	<u>\$ 4,536,168</u>	<u>\$ 4,664,532</u>

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

	<u>2016</u>	<u>2015</u>
<b>LIABILITIES AND FUND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 62,509	\$ 59,934
Accounts payable	28,496	28,225
Accounts payable - Other (Note 8)	-	-
Accrued liabilities	8,103	8,199
Customer deposits	57,015	57,141
Total current liabilities	<u>156,123</u>	<u>153,499</u>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt	<u>950,579</u>	<u>1,115,660</u>
<b>TOTAL LIABILITIES</b>	<u>1,106,702</u>	<u>1,269,159</u>
<b>FUND NET POSITION</b>		
Invested in capital assets, net of related debt	2,685,203	2,708,450
Restricted for debt service	79,744	79,656
Restricted for water improvement	63,750	4,438
Restricted for other	124,892	125,199
Unrestricted	475,877	477,630
	<u>3,429,466</u>	<u>3,395,373</u>
	<u>\$ 4,536,168</u>	<u>\$ 4,664,532</u>

**WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>OPERATING REVENUES</b>		
Water revenues	\$ 364,866	\$ 368,837
Sewer revenues	323,875	321,145
Sanitation revenues	281,893	268,556
Other operating revenue	11,935	39,306
Total operating revenues	982,569	997,844
<b>OPERATING EXPENSES</b>		
Salaries	191,571	207,282
City council salary reimbursement	20,901	29,061
Utilities	66,369	63,411
Insurance	9,155	7,621
Repairs and maintenance	110,645	86,268
Payroll taxes	18,797	19,665
Supplies	1,823	7,516
Rent	14,400	14,400
Vehicle and equipment	11,280	10,119
Postage	5,072	5,228
Depreciation	185,753	173,481
Contract sanitation	123,942	49,029
Fuel expense	8,031	10,951
Health insurance	16,639	20,121
Employee retirement	31,572	30,284
Professional fees	2,598	2,493
Other operating expenses	76,886	170,942
Total operating expenses	895,434	907,872
<b>OPERATING INCOME</b>	<b>87,135</b>	<b>89,972</b>

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



	<u>2016</u>	<u>2015</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest income	863	1,075
Interest expense	<u>(53,905)</u>	<u>(57,334)</u>
	<u>(53,042)</u>	<u>(56,259)</u>
<b>NET INCREASE IN FUND NET ASSETS</b>	34,093	33,713
<b>FUND NET ASSETS, BEGINNING OF YEAR</b>	<u>3,395,373</u>	<u>3,361,660</u>
<b>FUND NET ASSETS, END OF YEAR</b>	<u><u>\$ 3,429,466</u></u>	<u><u>\$ 3,395,373</u></u>

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

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 911,431	\$ 778,112
Cash paid to suppliers	(436,899)	(284,600)
Cash paid to employees and council members	(212,472)	(236,343)
Transferred from certificates of deposit	59,973	228,311
Transferred to certificates of deposit	-	(46,286)
Cash provided by operating activities	<u>322,033</u>	<u>439,194</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Net increase in customer deposits	<u>(126)</u>	<u>(3,365)</u>
Net cash (used) provided from noncapital financing activities	<u>(126)</u>	<u>(3,365)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisitions of property and equipment	(20,519)	(112,638)
Principal payments note obligations	(162,506)	(266,850)
Proceeds from issuance of new bonds	-	-
Interest paid on bond and note obligations	<u>(53,905)</u>	<u>(57,334)</u>
Net cash used by capital and related financing activities	<u>(236,930)</u>	<u>(436,822)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>863</u>	<u>1,075</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	85,840	82
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>513,764</u>	<u>513,682</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 599,604</u></u>	<u><u>\$ 513,764</u></u>

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

	<u>2016</u>	<u>2015</u>
<b>ADJUSTMENTS TO RECONCILE OPERATING</b>		
<b>INCOME TO CASH FLOWS FROM</b>		
<b>OPERATING ACTIVITIES</b>		
Operating income	\$ 87,135	\$ 89,972
Items not requiring (providing) cash:		
Depreciation	185,753	173,481
Changes in:		
Accounts receivable	(11,165)	8,579
Inventories	162	1,956
Certificates of deposit	59,973	181,911
Accounts payable	271	1,955
Accrued liabilities	(96)	(18,660)
	<u>\$ 322,033</u>	<u>\$ 439,194</u>

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

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The Water, Sewer and Sanitation Department of Star City, Arkansas, (the "Department") is an operating entity 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 include only those funds that relate to the operations of the Department.

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").

#### 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 amounts and disclosures reported in the financial statements. These estimates represent management's evaluation of information available as of the date the financial statements were prepared and are subject to varying degrees of reliability. Accordingly, actual results could differ from the estimates reflected in these financial statements.

#### 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.

#### Fair Value of Financial Instruments

The Department's financial instruments are cash, certificates of deposit, accounts receivable, supplies inventory, accounts payable, other current liabilities and long-term debt. The recorded values of cash, certificates of deposit, 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

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

Cash Fund Descriptions and Restricted Cash Fund Requirements

A description of cash funds and their requirements is 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 depreciation fund can be used only for water well maintenance. The fund earns interest monthly.

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

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 received money from the City general fund. The fund is used to pay for additions to the water plant.

Sewer Improvement Fund – This fund received money from the City general fund. The fund is used to pay for additions to the sewer plant.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

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

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. While management feels the Department's processes effectively address its exposure to doubtful accounts, changes in economic conditions in the Department's geographically concentrated service area may require adjustment to the allowance recorded by the Department. At December 31, 2016 and 2015, management determined that an allowance for doubtful accounts was not necessary.

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.

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 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

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.

Reclassifications

Certain reclassifications were made to the amounts in the 2015 financial statements in order to conform to the 2016 financial statement presentation.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2: CASH, CERTIFICATES OF DEPOSIT 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 \$346,900 and \$233,000 at December 31, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Petty cash	\$ 400	\$ 400
Revenue fund	82,343	78,747
Sewer fund	97,014	90,306
Water fund	72,783	87,098
Sanitation fund	78,678	47,920
	<u>331,218</u>	<u>304,471</u>
Restricted:		
Escrow fund	4,926	4,921
Depreciation fund	63,186	63,138
Meter deposit fund	56,780	57,140
Bond and debt service reserve fund	79,744	79,656
Water improvement	63,750	4,438
	<u>268,386</u>	<u>209,293</u>
	<u>\$ 599,604</u>	<u>\$ 513,764</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 2: CASH, CERTIFICATES OF DEPOSIT AND RESTRICTED FUNDS (CONTINUED)**

Certificates of deposit consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
Sewer fund	\$ 46,408	\$ 46,286
Water fund	-	60,095
	<u>\$ 46,408</u>	<u>\$ 106,381</u>

Certificates of deposit are purchased with maturities of three to twelve months and earn interest ranging from 0.25% to 0.33%.

**NOTE 3: CAPITAL ASSETS**

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

	<u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016</u>
Land and easements	\$ 42,143	\$ -	\$ -	\$ 42,143
Water plant	3,364,145	-	-	3,364,145
Sewer plant	3,577,809	-	-	3,577,809
Sanitation plant	27,400	-	-	27,400
Machinery and equipment	928,011	20,519	-	948,530
	<u>7,939,508</u>	<u>20,519</u>	<u>-</u>	<u>7,960,027</u>
Accumulated depreciation	4,055,464	185,753	-	4,241,217
	<u>\$ 3,884,044</u>			<u>\$ 3,718,810</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 4: LONG-TERM DEBT**

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

	<u>2015</u>	<u>Additions</u>	<u>Payments</u>	<u>2016</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.	\$ 936,371	\$ -	\$ 33,338	\$ 903,033
Series 2013 Water Revenue Bonds payable due November 25, 2023 payable in annual installments of \$34,474, including interest at 3.27%, secured by all revenues.	239,223	-	129,168	110,055
	<u>1,175,594</u>	-	<u>162,506</u>	<u>1,013,088</u>
Less current maturities	<u>59,934</u>			<u>62,509</u>
	<u><b>\$ 1,115,660</b></u>			<u><b>\$ 950,579</b></u>

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

**NOTES TO FINANCIAL STATEMENTS.**

**DECEMBER 31, 2016 AND 2015**

**NOTE 4: LONG-TERM DEBT (CONTINUED)**

Proceeds from the 1992 and 1993 Water and Sewer Revenue Bonds were used to finance improvements to the water and sewer system. These bonds were sold to the Rural Economic and Community Development Agency of the U.S. Department of Agriculture. The Department's water and sewer revenues are pledged to secure payment of the bonds. The bond agreements require, among other things, maintenance of insurance coverage, charging user fees adequate to retire the bonds and the maintenance and financing of certain reserve accounts (Note 2).

Proceeds from the 2013 Water Revenue were used to finance the purchase and installation of new electronic water meters. The bonds were sold to one financial institution. New meters as well as water revenue are pledged to secure payment of the bonds.

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, 2016 and 2015.

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 62,509	\$ 51,509	\$ 114,018
2018	65,201	48,517	113,718
2019	68,013	46,005	114,018
2020	65,428	43,066	108,494
2021	42,726	36,819	79,545
2022 - 2026	248,741	148,981	397,722
2027 - 2031	319,224	78,498	397,722
2032 - 2033	141,246	7,372	148,618
	<u>\$ 1,013,088</u>	<u>\$ 460,767</u>	<u>\$ 1,473,855</u>

**NOTE 5: RETIREMENT PLAN**

The Department participates in the Arkansas Public Employee Retirement System (APERS). APERS is a cost-sharing multiple-employer public employee retirement system. All full-time employees of the Department are covered under APERS. The Department is required to make contributions based on a percentage of gross salary expense of covered employees. Some employees do 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2016 AND 2015**

**NOTE 6: RELATED PARTY TRANSACTIONS**

Rent expense represents amounts paid to the City general fund for office space used by the Department. Rent of \$14,400 was paid to the City general fund for each of the years ended December 31, 2016 and 2015.

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 \$8,720 for Council Members' salaries for the years ended December 31, 2016 and 2015.

**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, 2016 will be material.

**NOTE 8: EVALUATION OF SUBSEQUENT EVENTS**

The Department has evaluated subsequent events through September 29, 2017, the date which the balance sheet was available to be issued. 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.

**SUPPLEMENTARY INFORMATION**

# LOVETT & COMPANY, LTD.

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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*

Members of 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 the 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, a component unit of the City of Star City, Arkansas (the "Department") as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated September 29, 2017.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 intended 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.

  
LOVETT & COMPANY, LTD

Little Rock, Arkansas  
September 29, 2017

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

**SCHEDULE OF ACTIVITY IN FUNDS REQUIRED BY BOND ORDINANCE**

**YEAR ENDED DECEMBER 31, 2016**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Interest Earned</u>	<u>With- drawls</u>	<u>Ending Balance</u>
<b>Bond and debt</b>					
<b>Service reserve fund</b>	\$ 79,656	\$ -	\$ 88	\$ -	\$ 79,744
<b>Depreciation fund</b>	63,138	-	48	-	63,186
	<u>\$ 142,794</u>	<u>\$ -</u>	<u>\$ 136</u>	<u>\$ -</u>	<u>\$ 142,930</u>

WATER, SEWER AND SANITATION DEPARTMENT OF STAR CITY, ARKANSAS

SCHEDULE OF INSURANCE COVERAGE

DECEMBER 31, 2016

<u>Description of Coverage</u>	<u>Policy Period</u>	<u>Amount of Coverage</u>
<b><u>Property Damage</u></b>		
Water tank and pumps	January 7, 2016 through January 6, 2017	\$ 790,720
Sewer plant and pumps	January 7, 2016 through January 6, 2017	190,000
Sanitation shop building and contents	January 7, 2016 through January 6, 2017	40,000
Vehicles and equipment	January 7, 2016 through January 6, 2017	392,539
<b><u>Employee Dishonesty</u></b>		
Blanket fidelity bond	July 1, 2016 through June 30, 2017	300,000



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

**SCHEDULE OF NAMES AND TITLES OF PRINCIPAL OFFICERS**

**DECEMBER 31, 2016**

**TITLE**

**NAME**

Mayor

Paul Carter

City Council Members

1. Renee Montgomery

2. John Davis

3. C.B. Leonard

4. David McCoy

5. Tim Drake

6. Kelly Goins

Water Superintendent

Thomas Linzy

Utilities Clerks

1. Daisy Copeland

2. Lea Ann Bradley

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

**SCHEDULE OF CUSTOMERS AND RATES**

**YEAR ENDED DECEMBER 31, 2016 AND 2015**

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>
<b>Residential Customers:</b>			
Minimum charge (first 1,500 gallons)*	7.50	18.75	12.50
Minimum charge (next 500 gallons)	3.00	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
<b>Regular Commercial Customers:</b>			
Minimum charge (first 1,500 gallons)*	9.36	18.75	20.00
Minimum charge (next 500 gallons)	3.00	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
<b>Large Commercial Customers:</b>			
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:**

2016	<u><u>1,040</u></u>
2015	<u><u>1,033</u></u>

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

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET  
ASSETS, BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**

**YEAR ENDED DECEMBER 31, 2016**

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>OPERATING REVENUES</b>			
Water revenues	\$ 364,866	\$ 370,000	\$ (5,134)
Sewer revenues	323,875	300,000	23,875
Sanitation revenues	281,893	282,000	(107)
Other income	11,935	75,000	(63,065)
Interest income	863	1,000	(137)
Total revenues	<u>983,432</u>	<u>1,028,000</u>	<u>(44,568)</u>
<b>OPERATING EXPENSES</b>			
Salaries	191,571	183,000	8,571
City council salary reimbursement	20,901	7,500	13,401
Utilities	66,369	53,300	13,069
Insurance	9,155	13,000	(3,845)
Repairs and maintenance	110,645	150,000	(39,355)
Payroll taxes	18,797	20,000	(1,203)
Supplies	1,823	3,500	(1,677)
Rent	14,400	15,000	(600)
Vehicle and equipment	11,280	4,500	6,780
Postage	5,072	3,500	1,572
Contract sanitation	123,942	105,000	18,942
Fuel expense	8,031	18,000	(9,969)
Health insurance	16,639	23,000	(6,361)
Employee retirement	31,572	21,000	10,572
Professional fees	2,598	-	2,598
Other operating expenses	76,886	137,000	(60,114)
Interest expense	53,905	-	53,905
Capital outlay	-	52,000	(52,000)
Bond principal payments	162,506	128,000	34,506
Total expenditures and capital outlays	<u>926,092</u>	<u>937,300</u>	<u>(11,208)</u>

\* This is not an operating revenue.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES, CAPITAL OUTLAYS AND TRANSFERS</b>	57,340	90,700	(33,360)
<b>FUND NET ASSETS, BEGINNING (NON-GAAP BUDGETARY BASIS)</b>	<u>3,395,373</u>	<u>3,395,373</u>	<u>-</u>
<b>FUND NET ASSETS, ENDING (NON-GAAP BUDGETARY BASIS)</b>	<u>3,452,713</u>	<u>\$ 3,486,073</u>	<u>\$ (33,360)</u>
<b>ADJUSTMENTS TO GAAP</b>			
Bond principal payments (1)	162,506		
Depreciation and amortization (2)	<u>(185,753)</u>		
	<u>(23,247)</u>		
<b>FUND NET ASSETS, ENDING (GAAP BASIS)</b>	<u>\$ 3,429,466</u>		

(1) Bond principal payments are cash outlays for budgetary purposes but are not expenses under GAAP basis accounting. During the year, \$162,506 was used to make payments on the Bonds.

(2) Depreciation and amortization are expenses under GAAP.