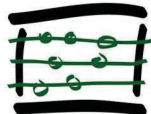


**Water and Sewer Fund of the  
City of Harrison, Arkansas**  
Independent Auditors' Report  
with  
Financial Statements  
and  
Supplemental Information

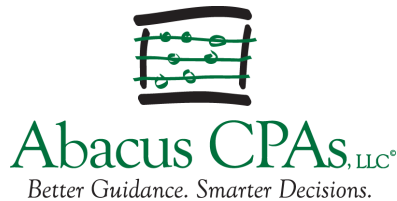
For the Years Ended December 31, 2021 and 2020



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Water and Sewer Fund of the City of Harrison, Arkansas  
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December 31, 2021 and 2020

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayors and Members of the  
City Council of the City of Harrison, Arkansas  
Harrison, Arkansas

### Opinion

We have audited the accompanying financial statements of the Water and Sewer Fund (the Utility), of the City of Harrison, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Sewer Fund of the City of Harrison, Arkansas, as of December 31, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water and Sewer Fund of the City of Harrison, Arkansas 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 qualified audit opinions.

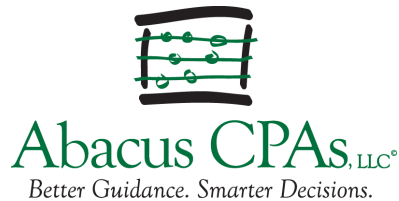
As more fully described in Note 6 to the financial statements, the Utility has excluded the effects of certain pension obligations from liabilities in the accompanying statements of net position. In our opinion, accounting principles generally accepted in the United States of America require that such obligations be included in the statement of net position. Had the Utility included such obligations in the statements of net position, the amounts reported for liabilities and increase (decreases) in net position would have been materially affected.

### Prior Period Financial Statements

The financial statements of Water and Sewer Fund of the City of Harrison, Arkansas as of December 31, 2020 were audited by other auditors whose report dated September 14, 2021 expressed a qualified opinion on those statements.

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## Management's Responsibility 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 Utility'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.

## Auditors' Responsibility

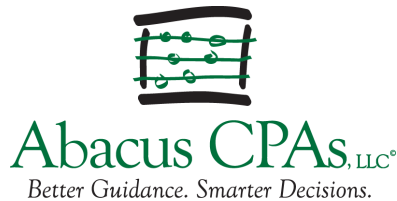
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 Entity'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 Entity's ability to continue as a going concern for a reasonable period of time.

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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.

### **Emphasis of Matters**

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

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

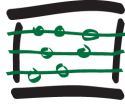
#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole that comprise the Water and Sewer Fund of the City of Harrison, Arkansas' basic financial statements. The additional information on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023, on our consideration of Water and Sewer Fund of the City of Harrison, Arkansas' 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 Water and Sewer Fund of the City of Harrison, Arkansas' internal control over financial reporting and compliance.

*Abacus CPAs, LLC*

Springfield, Missouri  
April 5, 2023

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**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2021 and 2020**

As management of the Water and Sewer Fund of the City of Harrison, Arkansas (the Utility), we offer readers of the City of Harrison, Arkansas' (the City) financial statements this overview and analysis of the financial activities of the Utility for the years ended December 31, 2021 and 2020. The Utility is a fund of the City and is accounted for separately as an enterprise fund.

Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful for sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The Utility provides water, sewer and sanitation services to residential, commercial and industrial customers in and around Harrison, Arkansas.

### **Overview of the Financial Statements**

This annual report includes this Management's Discussion and Analysis report, the Basic Financial Statements and the Notes to Financial Statements.

The financial statements of the Utility report information of the Utility using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Utility's activities. The Statements of Net Position includes all the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Utility's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utility's operations over each year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting periods.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2021 and 2020**

**Financial Highlights**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Assets	\$ 21,282,438	\$ 21,805,355	\$ 22,819,590	\$ 23,413,100
Net Capital Assets	17,745,993	18,087,859	18,606,219	18,217,896
Total Liabilities	2,894,661	2,850,792	2,922,023	3,086,910
Net Position Invested in Capital Assets	16,272,207	16,480,091	16,833,856	16,285,682
Restricted Net Position	598,196	566,148	533,109	494,216
Unrestricted Net Position	1,517,377	1,908,324	2,530,602	3,546,292
Total Net Position	18,387,780	18,954,563	19,897,567	20,326,190
Total Operating Revenues	7,699,789	7,105,783	7,009,894	6,964,315
Total Operating Expenses	8,793,122	8,298,634	7,772,510	7,533,862
Total Other Revenues	526,550	249,847	333,993	514,595
(Decrease) in Net Position	(566,783)	(943,004)	(428,623)	(54,952)

**Total Assets** - Total assets decreased approximately \$523,000 from December 31, 2020 to 2021. This decrease was due primarily to depreciation of capital assets and a decrease in cash. Total assets decreased approximately \$1,014,000 from December 31, 2019 to 2020. This decrease was due primarily to depreciation of capital assets.

**Net Capital Assets** - Net capital assets decreased approximately \$342,000 from December 31, 2020 to 2021. This decrease was due to capital additions, net of disposals, of \$494,000, which were offset by a net increase in accumulated depreciation of \$836,000. The additions included construction projects such as water lines and sewer line renovations. Net capital assets decreased approximately \$518,000 from December 31, 2019 to 2020. This increase is due to capital additions, net of disposals, of \$336,000, which were offset by a net increase in accumulated depreciation of \$854,000. The additions included a roof replacement and the completion of the SCADA project.

**Total Liabilities** - Total liabilities increased approximately \$44,000 from December 31, 2020 to 2021. This increase was due primarily to decreases in long-term debt of \$139,000, offset by increases in accounts payable of \$130,000, meter deposits of \$32,000. Total liabilities decreased approximately \$71,000 from December 31, 2019 to 2020, due primarily to decreases in accounts payable of \$44,000 and long-term debt of \$165,000, offset by an increase in accounts payable of \$38,000, meter deposits of \$33,000 and accrued compensated absences of \$21,000..

**Total Net Position** - Total net position decreased approximately \$567,000 from December 31, 2020 to 2021, due to an operating loss of approximately \$1,093,000 offset by other income of \$527,000. Total net position decreased approximately \$943,000 from December 31, 2019 to 2020, due to an operating loss of \$1,193,000 offset by other income of \$250,000.

**Total Operating Revenues** - Total operating revenues increased approximately \$594,000 from December 31, 2020 to 2021. This increase was primarily due to increases in water and sanitation revenues. Total operating revenues increased approximately \$96,000 from December 31, 2019 to 2020. This increase was primarily due to increases in sanitation and other operating revenues.

**Total Operating Expenses** - Total operating expenses increased approximately \$494,000 from December 31, 2020 to 2021. This increase was primarily due to increases in water purchases of approximately \$147,000, sanitation contracted services of \$248,000, and salaries, wages and related benefits of \$253,000. Total operating expenses increased approximately \$526,000 from December 31, 2019 to 2020. This increase was primarily due to increases in water purchases of approximately \$252,000, sanitation contracted services of \$53,000, repairs and maintenance of \$71,000, and salaries, wages and related benefits of \$72,000.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Management's Discussion and Analysis**  
**For the Years Ended December 31, 2021 and 2020**

**Total Other Income (Expense)** - Total other income (expense) increased approximately \$277,000 from December 31, 2020 to 2021. This increase was due primarily to increases in infrastructure projects. Total other income (expense) decreased approximately \$84,000 from December 31, 2019 to 2020. This decrease was due primarily to a decrease in infrastructure projects.

**Contacting the Entity's Financial Management**

The Utility's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Utility's finances and to demonstrate the Utility's accountability. If you have questions about the report or need additional financial information, please contact Luke Feighert, Chief Financial Officer, at 118 Industrial Park Rd, Harrison, Arkansas 72601.

Water and Sewer Fund of the City of Harrison, Arkansas  
 Statements of Net Position  
 December 31, 2021 and 2020

	Assets	
	2021	2020
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,380,319	\$ 609,191
Certificates of deposit	-	1,253,293
Accounts receivable, less allowance for doubtful accounts of \$95,166 and \$63,249 in 2021 and 2020	1,036,682	913,708
Accounts receivable - inter-fund	100,523	22,341
Inventory	420,725	352,815
<b>Total Current Assets</b>	<b>2,938,249</b>	<b>3,151,348</b>
<b>Restricted Assets:</b>		
Meter deposits	598,196	566,148
<b>Total Restricted Assets</b>	<b>598,196</b>	<b>566,148</b>
<b>Property and Equipment:</b>		
Land	13,085	13,085
Property and equipment, at cost	37,552,628	37,058,394
Accumulated depreciation	(19,819,720)	(18,983,620)
<b>Net Property and Equipment</b>	<b>17,745,993</b>	<b>18,087,859</b>
<b>Total Assets</b>	<b>\$ 21,282,438</b>	<b>\$ 21,805,355</b>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities:</b>		
Accounts payable - trade	\$ 588,684	\$ 457,608
Accounts payable - inter-fund	-	275
Accrued liabilities	72,277	58,971
Accrued compensated absences - current portion	80,259	80,428
Current portion of long-term debt	174,077	169,001
<b>Total Current Liabilities</b>	<b>915,297</b>	<b>766,283</b>
<b>Liabilities Payable from Restricted Assets</b>		
Meter deposits	598,196	566,148
<b>Total Liabilities Payable from Restricted Assets</b>	<b>598,196</b>	<b>566,148</b>
<b>Long-term Liabilities:</b>		
Accrued compensated absences - long-term portion	81,457	79,594
Long-term debt, net of current portion	1,299,711	1,438,767
<b>Total Long-term Liabilities</b>	<b>1,381,168</b>	<b>1,518,361</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	16,272,207	16,480,091
Restricted for:		
Meter deposits	598,196	566,148
Unrestricted	1,517,377	1,908,324
<b>Total Net Position</b>	<b>18,387,780</b>	<b>18,954,563</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 21,282,438</b>	<b>\$ 21,805,355</b>

See Accompanying Notes to Financial Statements

Water and Sewer Fund of the City of Harrison, Arkansas  
 Statements of Revenues, Expenses, and Changes in Net Position  
 For the Years Ended December 31, 2021 and 2020

	2021	2020
<b>Operating Revenues</b>		
Water	\$ 3,314,540	\$ 3,061,201
Sewer	1,845,326	1,696,209
Sanitation	2,440,516	2,239,622
Other operating income	99,407	108,751
<b>Total Operating Revenues</b>	<b>7,699,789</b>	<b>7,105,783</b>
<b>Operating Expenses:</b>		
Water purchases	2,021,674	1,874,963
Sanitation contracted services	2,304,307	2,056,176
Administrative and other expenses	3,631,041	3,512,995
Depreciation	836,100	854,500
<b>Total Operating Expenses</b>	<b>8,793,122</b>	<b>8,298,634</b>
<b>Operating (Loss)</b>	<b>(1,093,333)</b>	<b>(1,192,851)</b>
<b>Other Income</b>		
Infrastructure sales tax revenue	517,503	221,866
Interest income	9,047	27,981
<b>Total Other Income</b>	<b>526,550</b>	<b>249,847</b>
<b>(Decrease) in Net Position</b>	<b>\$ (566,783)</b>	<b>\$ (943,004)</b>
<b>Net Assets, Beginning of Year</b>	<b>18,954,563</b>	<b>19,897,567</b>
<b>Net Assets, End of Year</b>	<b>\$ 18,387,780</b>	<b>\$ 18,954,563</b>

See Accompanying Notes to Financial Statements

Water and Sewer Fund of the City of Harrison, Arkansas  
Statements of Cash Flow  
For the Years Ended December 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities:</b>		
Cash received from:		
Customers	7,477,408	7,013,403
Other operating activities	99,407	108,751
Cash paid for:		
Water	(2,021,674)	(1,874,963)
Sanitation contracted services	(2,304,582)	(2,057,440)
Salaries, wages and related benefits	(1,341,915)	(1,333,656)
Administrative and other expenses	(2,210,961)	(2,195,658)
<b>Net Cash (Used in) Operating Activities</b>	<b>(302,317)</b>	<b>(339,563)</b>
<b>Cash Flows from Noncapital Financing Activities:</b>		
Infrastructure sales tax revenue	439,321	314,964
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>439,321</b>	<b>314,964</b>
<b>Cash Flows from Capital Financing Activities:</b>		
Proceeds from long-term debt	34,893	-
Principal payments on long-term debt	(168,874)	(164,595)
Purchases of property and equipment	(494,233)	(336,140)
<b>Net Cash (Used in) Capital Financing Activities</b>	<b>(628,214)</b>	<b>(500,735)</b>
<b>Cash Flows from Investing Activities:</b>		
Transfers (to) meter deposits restricted assets	(32,047)	(33,039)
Increase in meter deposits liability	32,047	33,039
Transfers from (to) from certificates of deposit	1,253,293	(1,253,293)
Interest income	9,047	27,981
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>1,262,340</b>	<b>(1,225,312)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>771,130</b>	<b>(1,750,646)</b>
<b>Cash and Restricted Cash, Beginning of Year</b>	<b>609,191</b>	<b>2,359,837</b>
<b>Cash and Restricted Cash, End of Year</b>	<b>\$ 1,380,319</b>	<b>\$ 609,191</b>
<b>Reconciliation of Operating Income to Net Cash Provided</b>		
<b>by (Used in) Operating Activities:</b>		
Operating (loss)	\$ (1,093,333)	\$ (1,192,851)
Depreciation	836,100	854,500
Changes in assets and liabilities		
Accounts receivable	(122,974)	16,371
Inventory	(67,910)	(77,908)
Accounts payable	131,076	38,330
Accounts payable - due to other funds	(275)	(1,264)
Accrued liabilities	15,000	23,259
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ (302,317)</b>	<b>\$ (339,563)</b>
<b>Supplemental Disclosure:</b>		
Cash paid for interest	<b>\$ 46,788</b>	<b>\$ 51,364</b>

See Accompanying Notes to Financial Statements

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**1. Summary of Significant Accounting Policies**

**Nature of Business**

The Water and Sewer Fund of the City of Harrison, Arkansas (the Utility) is a component unit of the City of Harrison, Arkansas (the City). The Utility is primarily in the business of providing water, sewer and sanitation services to residential, commercial and industrial customers in and around Harrison, Arkansas.

This summary of significant accounting policies is presented to assist in understanding The Water and Sewer Fund of the City of Harrison, Arkansas (the Utility)'s financial statements. The financial statements and notes are representations of the Utility's management, which is responsible for its integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Organization and Reporting Entity**

For financial reporting purposes, in conformity with Governmental Accounting Standards Board (GASB), the Utility includes all funds over which the Utility's management exercises financial accountability.

**Fund Types**

The accounts of the Utility are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures.

The Utility's various funds are grouped in the financial statements as a single enterprise fund. Enterprise Funds are used to account for operations that (a) 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 and 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/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues and expenses, along with the related assets and liabilities are recorded in the period in which the transactions occur, regardless of when the related cash is received or disbursed.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

1. Summary of Significant Accounting Policies - (continued)

Budgets and Budgetary Accounting

State law requires that the City Council, before the end of each fiscal year, make appropriations, by ordinance, for the expenditures of the City government for the following year. The City Council may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to year-end.

The Utility prepared the annual budget using the regulatory basis of accounting.

Cash Equivalents

For purposes of the statements of cash flows, the Utility considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments

The Utility maintains various cash and investment accounts. The Utility's investment policy states that the Utility will be limited to the purchase of certificates of deposit and Government securities including only direct U.S. Treasury obligations; treasury bills, notes and bonds. Certificates of deposit will be purchased directly from approved banks to enable management the opportunity to evaluate the financial condition of the specific bank.

Fair Value

The Utility categorizes the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the Utility's cash and cash equivalents and certificates of deposit are measured at Level 1.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of the investments or collateral securities that are in the possession of the outside party. The Utility has established a policy in which deposits and restricted assets are to be secured by collateral, reduced by the amount of insurance provided by the Federal Deposit Insurance Corporation (FDIC).

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**1. Summary of Significant Accounting Policies - (continued)**

**Accounts Receivable**

Accounts receivable primarily consist of credit extended to users in the normal course of business. Customers are required to pay a meter deposit when service commences. At the time service is terminated, these deposits may be applied to any outstanding receivable from the customer. The Utility uses the allowance method to account for uncollectible accounts receivable. In circumstances where management is aware of a specific user's inability to meet financial obligations, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. In addition, the Utility has established a general reserve based upon historical customer performance. Management also performs ongoing credit evaluations of its accounts and those which are considered uncollectible are reserved for through the allowance account. The policy for determining when receivables are past due or delinquent is based on how recently payments have been received. Amounts are written off at the point when collection attempts have been exhausted. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Utility's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Utility.

**Inventory**

Inventory consists of various materials held for use to repair and maintain existing operations. Inventory is valued at average cost, which approximates the first-in, first-out method. Inventory will be valued at the lower of cost or market in the event that it was deemed to be impaired.

**Inter-fund Receivables, Payables and Transfers**

Inter-fund receivables and payables result from lending and borrowing arrangements between the Utility and other funds of the City and are referred to as advances to and from other funds.

**Property and Equipment**

Property and Equipment is stated at historical cost. Contributed items are stated at estimated fair market value on the date of contribution. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Assets with an initial value or cost greater than or equal to \$2,500 and an estimated useful life greater than one year are capitalized under the Utility's capitalization policy; capital expenditures not meeting this criteria are expensed as incurred. Significant betterments, which increase the useful lives of capital assets, are capitalized and depreciated over the remaining useful life.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**1. Summary of Significant Accounting Policies - (continued)**

**Long-Lived Assets**

Impairment of capital assets is a significant and unexpected decline, which is based on triggering events or changes in circumstances that were not anticipated when the capital assets were placed in service. Based on management's assessment, no triggering events or changes in circumstances occurred during the years ended December 31, 2021 or 2020.

**Restricted Assets**

The Utility designated certain funds to be maintained for customer meter deposits. These deposits are held until the customer discontinues the Utility's services.

**Net Position Classifications**

Net Position is classified and presented as follows:

Net Position Invested in Capital Assets, net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provision or enabling legislation.

Unrestricted Net Position consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Revenue Recognition**

The Utility recognizes revenue when earned, based upon customer usage or when the service is provided. Water, sewer and sanitation revenues are billed to the customers in monthly cycles.

**Classification of Revenues**

Operating revenues generally consist of charges for water, sewer and sanitation usage and other fees billed to customers. Non-operating revenues consist of interest income, sales tax and miscellaneous income.

**Advertising**

The Utility follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2021 and 2020 was \$0 and \$0, respectively.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**1. Summary of Significant Accounting Policies - (continued)**

**Restricted Resources**

Under the terms of grant agreements, the Utility funds certain infrastructure improvements by a combination of specific improvement-reimbursement grants and general revenues. Thus, when infrastructure improvements are incurred, there may be both restricted and unrestricted net position available to finance these improvements. It is the Utility's policy to first apply improvement-reimbursement grant resources to such improvements and then general revenues.

**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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Compensated Absences**

The Utility has a policy whereby employees can accumulate unused sick and vacation leave and comp time. Sick leave is to be used for periods of illness and can be accrued up to 60 days. Upon termination or retirement, the Utility will pay all accrued vacation and will pay all accrued sick leave if the employee was hired before April 1, 2013. For employees hired after April 1, 2013, the Utility will pay all accrued sick leave only upon retirement or death. The Utility's definition of retirement is reaching the age of 65 or earning 28 years of actual service. The Utility has accrued the separation portion of this liability as accrued compensated absences, which totaled \$161,716 and \$160,022 at December 31, 2021 and 2020, respectively.

**Income Taxes**

Income of the Utility is derived from the exercise of essential governmental functions and accrues to the Utility, a component unit of the City of Harrison, Arkansas. It is, therefore, not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Comparative Data**

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**2. Financial Instruments with Risk of Accounting Loss**

Financial instruments that could potentially subject the Utility to a risk of accounting loss are carried at fair market value and include restricted and unrestricted Cash and Cash Equivalents as follows:

	Bank Balance	Carrying Balance
Insured (FDIC)	\$ 725,324	\$ 760,467
Collateralized by pledged securities	1,490,037	1,218,048
<b>Total</b>	<b>\$ 2,215,360</b>	<b>\$ 1,978,515</b>

The Utility, a component unit of the City of Harrison, Arkansas, maintains cash and certificates of deposit in one commercial bank under the City's federal identification number. The total cash balance under the City's federal identification number is insured by the FDIC up to \$250,000. The City participates in a pledged collateral program whereby the bank pledges collateral for balances in excess of the FDIC limit. The Utility believes there is no significant risk with respect to these deposits.

**3. Accounts Receivable**

Receivables at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Accounts receivable – trade	\$ 1,131,848	\$ 976,957
Less allowance for doubtful accounts	(95,166)	(63,249)
<b>Total accounts receivable</b>	<b>\$ 1,036,682</b>	<b>\$ 913,708</b>

Bad Debt expense was \$31,917 and \$35,548 for the year ended December 31, 2021 and 2020, respectively.

Water and Sewer Fund of the City of Harrison, Arkansas

Notes to Financial Statements

For the Years Ended December 31, 2021 and 2020

4. Property and Equipment

	Estimated Useful Life (in Years)	Balance		Disposals/ Transfers	Balance	
		12/31/2020	Additions		12/31/2021	
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085	
Water plant	10 - 50	10,758,732	6,600	-	10,765,332	
Sewer plant	50	17,366,959	-	350,174	17,717,133	
Machinery and equipment	5 - 10	2,653,595	9,462	21,108	2,684,166	
Transportation equipment	5 - 10	1,908,116	-	-	1,908,116	
Furniture, fixtures, and office equipment	5 - 15	325,133	-	-	325,133	
Water meters	20	2,386,370	-	-	2,386,370	
Water lines	50	1,246,133	-	92,506	1,338,639	
Construction in process	N/A	413,356	478,171	(463,788)	427,739	
Total property and equipment, at cost		\$ 37,071,479	\$ 494,233	-	\$ 37,565,713	
Less: accumulated depreciation		(18,983,620)	(836,100)	-	(19,819,720)	
Net property and equipment		<u>\$ 18,087,859</u>	<u>\$ (341,867)</u>	<u>\$ -</u>	<u>\$ 17,745,993</u>	

	Estimated Useful Life (in Years)	Balance		Disposals/ Transfers	Balance	
		12/31/2019	Additions		12/31/2020	
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085	
Water plant	10 - 50	10,613,203	82,333	63,196	10,758,732	
Sewer plant	50	17,335,018	31,941	-	17,366,959	
Machinery and equipment	5 - 10	2,528,427	-	125,168	2,653,595	
Transportation equipment	5 - 10	1,908,116	-	-	1,908,116	
Furniture, fixtures, and office equipment	5 - 15	325,133	-	-	325,133	
Water meters	20	2,386,370	-	-	2,386,370	
Water lines	50	1,246,133	-	-	1,246,133	
Construction in process	N/A	379,854	221,866	(188,364)	413,356	
Total property and equipment, at cost		36,735,339	336,140	-	37,071,479	
Less: accumulated depreciation		(18,129,120)	(854,500)	-	(18,983,620)	
Net property and equipment		<u>\$ 18,606,219</u>	<u>\$ (518,360)</u>	<u>\$ -</u>	<u>\$ 18,087,859</u>	

Depreciation expense for the years ended December 31, 2021 and 2020 was \$836,100 and \$854,500, respectively.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**5. Arkansas Public Employees Retirement System Plan**

The City, which includes the Utility, contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this system. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and can be amended only by the Arkansas General Assembly. APERS issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to the Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol Ave., Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**Funding Policy**

APERS has contributory and noncontributory plans. Contributory members are required to contribute 5% of their salary. Each participating employer is required to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% from July 1, 2021 and 15.32% from July 1, 2020. The Utility's contributions to APERS were \$238,537 and \$204,033 for the years ending December 31, 2021 and 2020, respectively.

**6. Accrued Pension Obligation**

The Utility participates in the APERS, as described in Note 5 above. The City of Harrison, Arkansas processes the Utility's payroll and remits pension payments directly to APERS. The Utility's share of the net pension liability has not been determined. Such obligations would have materially affected the Utility's statements of net position and increases (decreases) in net position.

**7. Long-Term Debt**

Long-term debt consisted of the following:

	12/31/2020	Additions	Principal Payments	12/31/2021
Note payable to Anstaff Bank: original loan \$2,310,977; secured by revenue and water meters; interest 2.97% quarterly payments including interest of \$53,990 through 2019 and 53,730 2020-2029	\$ 1,607,768	\$ 34,893	\$ (168,874)	\$ 1,473,787
<b>Total Debt</b>	<b>1,607,768</b>	<b>34,893</b>	<b>(168,874)</b>	<b>1,473,787</b>
Less: Current Portion	(169,001)			(174,077)
<b>Long-Term Portion</b>	<b>\$ 1,438,767</b>			<b>\$ 1,299,711</b>

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**7. Long-Term Debt - (continued)**

Maturities for the years ending December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	174,077	40,843	214,920
2023	179,305	35,615	214,920
2024	184,604	30,316	214,920
2025	190,234	24,686	214,920
2026	195,947	18,973	214,920
2027-2029	549,620	21,323	570,944
Total	<u>\$ 1,473,787</u>	<u>\$ 171,756</u>	<u>\$ 1,645,544</u>

**8. Related Party Transactions**

The Utility reimburses the City for its portion of expenses paid directly by the City's general fund. These reimbursements are paid monthly and consist of an accounting fee for administrative, billing and record keeping services, and a maintenance fee for repairs and upkeep of the water and sewer fund fixed assets, along with certain safety fees. During the years ended December 31, 2021 and 2020 the reimbursements were approximately \$259,171 and \$536,000, respectively.

**9. Commitments and Contingencies**

Effective January 1, 1999, the Utility executed an agreement for the purchase of all water from the Carroll Boone Water District. This agreement may be amended by mutual agreement of the parties.

There are no significant minimum rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2021.

Effective January 1, 2013, the Utility executed a ten-year agreement for the collection and transfer of solid waste and recyclable materials with Inland Services. This agreement cannot be modified or amended unless approved by the governing bodies of both parties and signed by the authorized representatives of the City and

At December 31, 2021 and 2020, there were no material outstanding unfilled contract commitments.

In the normal course of operations, the Utility receives grant funds from various federal and state agencies. The grant programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City believes any liability for reimbursement, which may arise as a result of audits of grant funds, would not be material.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**10. Risk Management**

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

The Utility has joined with other municipalities to form the Arkansas Municipal League Vehicle Insurance Program (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for its members. The Utility pays an annual premium to the Pool for its vehicle insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

**11. Water and Sewer Rates**

In order to provide funding for system improvements, various water and sewer rates were established by ordinance. In February 2014, City Council passed an ordinance that beginning July 1, 2015, and for each year thereafter until amended by council action, the water and sewer rates shall be increased by an annual percentage as determined by the annual United States Consumer Price Index for the previous calendar year.

The rates in effect for the years ended December 31, 2021 are as follows:

	<u>Water Rates</u>	<u>Sewer Rates</u>
First 1,500 gallons	\$12.30 minimum	\$9.04 minimum
Next 25,000 gallons	\$5.32 per 1,000 GA	\$5.38 per 1,000 GA
Next 250,000 gallons	\$4.84 per 1,000 GA	\$5.24 per 1,000 GA
Usage over 250,000 gallons	\$4.92 per 1,000 GA	\$5.33 per 1,000 GA

The rates in effect for the years ended December 31, 2020 are as follows:

	<u>Water Rates</u>	<u>Sewer Rates</u>
First 1,500 gallons	\$11.71 minimum	\$8.61 minimum
Next 25,000 gallons	\$5.07 per 1,000 GA	\$5.12 per 1,000 GA
Next 250,000 gallons	\$4.61 per 1,000 GA	\$4.99 per 1,000 GA
Usage over 250,000 gallons	\$4.69 per 1,000 GA	\$5.08 per 1,000 GA

Billing rates for both "outside city" water and sewer rates are calculated at \$1.00 plus one hundred fifty percent (150%) of the above appropriate "inside city" rates.

**Water and Sewer Fund of the City of Harrison, Arkansas**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**

**12. Concentrations of Economic and Credit Risk**

The Utility's business activities are concentrated with customers located in and near the City of Harrison, Arkansas. All future revenue is associated within the above-mentioned geographic region.

The Utility purchases water from Carroll Boone Water District. This is the Utility's only contracted source of water. In addition, the Utility contracts all of its solid waste with a single provider.

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

Concentrations of credit risk with respect to accounts receivable are limited due to the Utility's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Utility performs ongoing credit evaluations of its customers. Customer meter deposits are available to the Utility to apply to any amounts due upon termination of service.

The Utility, a component unit of the City of Harrison, Arkansas, maintains cash in one commercial bank under the City's federal identification number. The total cash balance under the City's federal identification number is insured by the FDIC up to \$250,000. However, the City participates in a pledged collateral program whereby the bank pledges collateral for balances in excess of the FDIC limit. The Utility believes there is no significant risk with respect to these deposits.

**13. Risks and Uncertainties**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Utility's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Utility's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may permanently impact the Utility's financial condition or results of operations is uncertain.

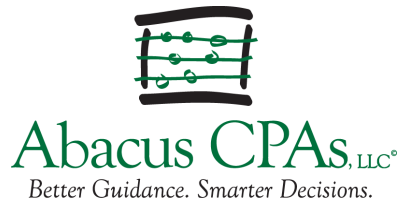
**14. Subsequent Events**

Management of the Utility has evaluated subsequent events through April 5, 2023 the date on which the financial statements were available to be issued.

## Supplemental Information

Water and Sewer Fund of the City of Harrison, Arkansas  
Schedules of Administrative and Other Expenses  
For the Years Ended December 31, 2021 and 2020

	2021	2020
Accounting and auditing	\$ 18,500	\$ 273,385
Bad debt, net of recoveries	30,740	48,078
Billing fee	39,940	31,683
Chemicals	27,001	20,662
Conservation	133,684	131,910
Contracted services	106,401	99,550
Dues and subscriptions	2,282	3,630
Fuel	67,994	39,686
Human resources	7,950	7,950
Insurance	74,512	81,194
Interest Expense	46,788	51,364
Legal fees	4,000	-
Maintenance fund	54,462	57,909
Material and supplies	105,254	153,547
Other administrative	92,606	73,421
Payroll taxes	113,324	97,059
Permits	41,471	40,816
Planning costs	38,138	41,573
Regulatory compliance	14,870	-
Repairs and maintenance	488,665	408,786
Salaries, wages, and related benefits	1,944,248	1,689,024
Training and travel	7,599	4,172
Utilities and telephone	170,612	157,596
	\$ 3,631,041	\$ 3,512,995
<b>Total Administrative and Other Expenses</b>		



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**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 Honorable Mayor and Members of the  
City Council of the  
City of Harrison, 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 Water and Sewer Fund of the City of Harrison, Arkansas (the Utility), a component unit of the City of Harrison, Arkansas, which comprise the statement of financial position as December 31, 2021, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and the related notes to financial statements, and have issued our report thereon dated April 5, 2023.

**Internal Control Over Financial Reporting**

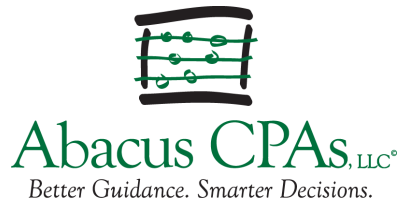
In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items to be material weaknesses. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from 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 Utility'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 Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Abacus CPAs, LLC*

Springfield, Missouri  
April 5, 2023

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Water and Sewer Fund of the City of Harrison, Arkansas  
Report on Findings  
December 31, 2021 and 2020

**Current Year Findings – (Repeat)**

**Finding Number 2021-1 Unclaimed Property**

**Finding:** Arkansas state law requires the Utility to file an unclaimed property report and turn over unclaimed property to the Arkansas State Auditor’s Unclaimed Property Division (UCP) on an annual basis. The report must include any outstanding check which would be dormant for 1 year as of the report date. In addition, a due diligence letter must be mailed within 60 – 120 days before filing the report for any amount over \$50. During our testing of bank reconciliations we noted approximately 530 outstanding checks that meet the unclaimed property designation, with some dating as far back as January 2011.

**Recommendation:** We recommend that management review the outstanding checks in order to file and remit the unclaimed property report. In addition, we recommend that management adherence to this regulation.

**Responses:** The City of Harrison has started the process of submitting unclaimed property to the State of Arkansas. The new BS&A software has the ability to export these uncashed checks in the format approved by the Arkansas State Auditor’s office.

**Finding Number 2020-1 Unclaimed Property**

**Finding:** Arkansas state law requires the Utility to file an unclaimed property report and turn over unclaimed property to the Arkansas State Auditor’s Unclaimed Property Division (UCP) on an annual basis. The report must include any outstanding check which would be dormant for 1 year as of the report date. In addition, a due diligence letter must be mailed within 60 – 120 days before filing the report for any amount over \$50. During our testing of bank reconciliations we noted approximately 350 outstanding checks that meet the unclaimed property designation, with some dating as far back as January 2011.

**Recommendation:** We recommend that management review the outstanding checks in order to file and remit the unclaimed property report. In addition, we recommend that management adherence to this regulation.

**Responses:** The City of Harrison has started the process of submitting unclaimed property to the State of Arkansas. The new BS&A software has the ability to export these uncashed checks in the format approved by the Arkansas State Auditor’s office.