

**City of Redfield Water & Sewer Utility**  
A Department of the City of Redfield, Arkansas

Financial Statements  
*with*  
*Independent Auditor's Report*  
*and Supplementary Information*

December 31, 2019

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### **Independent Auditor's Report**

To the Council Members  
City of Redfield Water & Sewer Utility,  
A Department of the City of Redfield, Arkansas  
Redfield, Arkansas

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of City of Redfield Water & Sewer Utility, a department of the City of Redfield, Arkansas (the "Department"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Department, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year 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 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Department's basic financial statements. The accompanying schedules I and II are presented for purposes of additional analysis and are 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.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Department, are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the City of Redfield that is attributable to the

transactions of the Department. They do not purport to, and do not, present fairly the financial position of the City of Redfield, Arkansas as of December 31, 2019, and the changes in its financial position and its cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have issued our report dated August 16, 2022 on our consideration of City of Redfield Water & Sewer Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 City of Redfield Water & Sewer Utility's internal control over financial reporting and compliance.

*Bell & Company, P.A.*

North Little Rock, Arkansas  
August 16, 2022

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Statement of Net Position**  
**December 31, 2019**

**Assets**

**Current assets**

Cash and cash equivalents	\$ 1,317,257
Accounts receivable, net of allowance for doubtful accounts	112,961
Inventory	7,000
Prepaid expenses	14,667
Total current assets	<u>1,451,885</u>

**Capital assets**

Land and easements	46,802
Structures and improvements	3,438,037
Equipment	157,704
Construction in progress	2,280,798
	<u>5,923,341</u>
Accumulated depreciation	<u>(2,367,165)</u>
Net capital assets	3,556,176

**Other noncurrent assets**

Restricted checking and deposits	<u>286,174</u>
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<b>Total assets</b>	<b><u><u>\$ 5,294,235</u></u></b>
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## Liabilities and Net Position

### **Current liabilities**

Accounts payable	\$ 4,717
Accrued expenses	21,208
Customer meter deposits	91,015
Current portion of long-term debt	67,557
Total current liabilities	<u>184,497</u>

### **Long-term liabilities**

Liquidated damages	10,000
Long-term debt	2,773,394
	<u>2,783,394</u>
Total liabilities	2,967,891

### **Net position**

Net investment in capital assets	715,225
Restricted - expendable	620,925
Unrestricted	990,194
Total net position	<u>2,326,344</u>

<b>Total liabilities and net position</b>	<u><u>\$ 5,294,235</u></u>
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*See accompanying notes.*

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2019**

<b>Operating revenues</b>	
Metered water sales	\$ 541,534
Connection and other fees	21,980
Sewer revenue	183,206
Late charges and penalties	34,064
Other revenue	173,926
Total operating revenues	<u>954,710</u>
<b>Operating expenses</b>	
Depreciation	84,509
Insurance	12,292
Liquidated damages	10,000
Miscellaneous expense	13,612
Office and administrative	5,524
Professional services	17,891
Repairs and maintenance	104,625
Wages and related expenses	154,511
Sales tax	44,083
Utilities and sanitation	220,409
Total operating expenses	<u>667,456</u>
<b>Operating income</b>	287,254
<b>Nonoperating revenues (expenses)</b>	
Interest income	9,432
Interest expense	(141,034)
Total nonoperating revenues (expenses)	<u>(131,602)</u>
<b>Change in net position</b>	155,652
<b>Net position - beginning of year</b>	<u>2,170,692</u>
<b>Net position - end of year</b>	<u><u>\$ 2,326,344</u></u>

*See accompanying notes.*

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2019**

<b>Cash flows from operating activities</b>	
Cash receipts from customers and other sources	\$ 954,747
Cash payments to suppliers and contractors	(431,926)
Cash payments to employees for services	(154,511)
Net cash provided by operating activities	<u>368,310</u>
<b>Cash flows from capital and related financing activities</b>	
Repayment of bonds payable	(73,074)
Acquisition and construction of capital assets	(263,044)
Interest paid on long-term debt	(141,034)
Net cash required by capital and related financing activities	<u>(477,152)</u>
<b>Cash flows from investing activities</b>	
Increase in meter deposits	13,184
Interest income	9,432
Net cash provided by investing activities	<u>22,616</u>
<b>Net decrease in cash and cash equivalents</b>	(86,226)
<b>Cash and cash equivalents - beginning of year</b>	<u>1,689,657</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 1,603,431</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 287,254
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	84,509
Changes in:	
Accounts receivable	37
Prepays	(7,630)
Inventory	2,500
Accounts payable	2,469
Accrued expenses	(10,829)
Liquidated damages	10,000
Net cash provided by operating activities	<u><u>\$ 368,310</u></u>

*See accompanying notes.*

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**1. Summary of Significant Accounting Policies**

**a. Reporting Entity** - City of Redfield Water & Sewer Utility, a department of the City of Redfield, Arkansas (the "Department") provides water and sewer services based on approved rates and usage to the general public. The Department requires a deposit based on the type of customer (commercial or residential) prior to the connection. The Department represents a fund of the City of Redfield, Arkansas (the City) and do not purport to, and do not, present fairly the financial position of the City of Redfield, Arkansas, as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. This report should be read in conjunction with the financial statements of the City to obtain a complete understanding of the City's net position. The City is audited by the Arkansas Division of Legislative Audit, State of Arkansas.

**b. Basis of Accounting and Presentation** – The financial statements of the Department have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income and interest expense are included in non-operating revenues and expenses. The Department first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Department prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

**c. Cash and Cash Equivalents** – For purposes of the statement of cash flows, the Department considers certificates of deposits and all highly liquid cash investments with original maturities of three months or less to be cash equivalents.

**d. Accounts Receivable** – Accounts receivable consist of water and sewer fees and surcharges billed to residential and commercial customers based on consumption. Accounts receivable are recorded net of estimated uncollectible amounts, as necessary.

**d. Inventory** – Inventory consists of expendable materials and supplies necessary for maintenance of the system. Inventories are stated at cost, determined using the first-in, first-out method.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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

**f. Capital Assets and Depreciation** – Capital assets are recorded at cost at the date of purchase, unless otherwise noted. Depreciation is computed using the straight-line method over the estimated useful life of each asset ranging from five to fifty years. Costs of repairs and maintenance that do not improve or extend the asset lives are expensed as incurred.

**g. Compensated Absences** - The Department permits employees to accumulate earned but unused vacation benefits. There was no accrual necessary for unpaid accumulated sick leave as of December 31, 2019.

**h. Net Position** - Net position represents the difference between assets and liabilities of resources on the Department's financial statements. Net positions are classified in the following categories:

*Net investment in capital assets* - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of assets.

*Restricted - expendable* - This amount consists of noncapital assets that must be used for a particular purpose as specified by creditors or grantors external to the Department, including amounts deposited with trustees as required by bond indentures.

*Unrestricted* - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position". Generally, these net assets represent those financial resources that are available to the Department to meet any future obligations that might arise.

**i. Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**j. Budget** - The Department is not required by law to submit a formal budget.

**k. Date of Management's Review** – Management has evaluated subsequent events through August 16, 2022, the date which the financial statements were available to be issued.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**2. Restricted Assets and Designated Net Position**

Restricted checking and deposits accounts at December 31, consists of the following:

Meter deposit CD	\$	32,842
2003 Bond Fund		3,426
2017 Construction Fund		235,795
2017 Bond Fund		14,111
		286,174
	<u>\$</u>	<u>286,174</u>

The Department has certain debt service funds with the Arkansas Natural Resources Commission (“ANRC”), which are restricted to various uses. The Department is required to deposit monthly with ANRC, to be held in trust, an amount equal to 1/6 of the interest to become due on the next ensuing interest payment plus 1/6 of the next installment of principal due next on the Bonds. The required deposits shall be reduced by any amount in the debt service fund available for meeting the purpose for which a deposit is required to be made. The total deposits, held in trust as of December 31, 2019, were \$17,537.

In addition, certain funds included in restricted checking and deposits are restricted to construction, rehabilitation or capital improvements. Those funds totaled \$235,795 as of December 31, 2019.

At December 31, 2019, restricted – expendable net position was available for the above stated purposes:

Restricted - expendable		
Debt service	\$	620,925

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**3. Capital Assets**

Capital asset activity for the year ended December 31, 2019 was:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 46,802	\$ -	\$ -	\$ 46,802
Buildings	13,615	-	-	13,615
Water and Sewer Systems	3,407,838	16,584	-	3,424,422
Vehicles	93,503	-	13,356	80,147
Equipment	77,557	-	-	77,557
Construction in progress	2,034,338	246,460	-	2,280,798
	<u>5,673,653</u>	<u>263,044</u>	<u>13,356</u>	<u>5,923,341</u>
Less accumulated depreciation	<u>(2,296,012)</u>	<u>(84,509)</u>	<u>(13,356)</u>	<u>(2,367,165)</u>
Total	<u>\$ 3,377,641</u>	<u>\$ 178,535</u>	<u>\$ -</u>	<u>\$ 3,556,176</u>

**4. Long-Term Debt**

Below is a summary of long-term obligation transactions for the year ended December 31, 2019:

Arkansas Natural Resource Commission - Payments are made semi-annually in the amount of \$76,336 and include interest at 4.25%. The loan is secured by pledge of sales and use tax, the net water and sewer revenues and plant and equipment of the system. This pledge is subordinate to all prior bonds. The loan is scheduled to mature in June 2047.

\$ 2,462,221

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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

Arkansas Natural Resource Commission - Payments are made semi-annually in the amount of \$20,544 and include interest at 5.90%. The loan is secured by pledge of sales and use tax, the net water and sewer revenues and plant and equipment of the system. This pledge is subordinate to all prior bonds. The loan is scheduled to mature in June 2033.

	378,730
Total long-term debt	2,840,951
Less current maturities	67,557
Long-term debt	\$ 2,773,394

Department has an agreement with the Arkansas Natural Resource Commission in which the Bond is secured by a lien on and a pledge of revenues to assure payment of principal and interest on the indebtedness until paid. Debt activity is summarized as follows:

	<u>January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31</u>	<u>Amounts Due</u> <u>Within One Year</u>
Long-term debt	\$ 2,914,025	\$ -	\$ 73,074	\$ 2,840,951	\$ 67,557

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

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

Approximate principal and interest payments for the next five years and five-year increments thereafter on long-term debt outstanding as of December 31, 2019:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 67,557	\$ 124,203	\$ 191,760
2021	70,780	122,980	193,760
2022	74,162	119,598	193,760
2023	77,709	116,051	193,760
2024	81,430	112,330	193,760
2025-2029	469,689	499,111	968,800
2030-2034	530,899	376,216	907,115
2035-2039	496,946	119,005	615,951
2040-2044	971,779	173,300	1,145,079
<b>Total</b>	<u><u>\$ 2,840,951</u></u>	<u><u>\$ 1,762,794</u></u>	<u><u>\$ 4,603,745</u></u>

Significant restrictive covenants on long-term debt include:

- Maintaining and preserving the distribution system.
- Maintaining insurance policies.
- Provide audited financial statements to the bondholder within 120 days of year-end, unless an extension is granted.

The covenants listed above are not intended to represent all restrictive covenants related to the debts. For a complete list, the debt agreements should be inspected.

For the year ending December 31, 2019, the City of Redfield Water & Sewer Utility was not in compliance with providing audited financial statements to the bondholder within 120 days of year-end. As of the date of this audit report, the debt has not been called by the bondholder.

**5. Reserve for Customer Deposits**

The Department collects a deposit for each new customer. The individual deposit amounts, included in total customer deposits vary, from \$10 in the 1980's to \$110 currently. The Department is required to maintain cash reserves equal to the total amount of customer meter deposits. At December 31, 2019, the total amount of customer deposits was \$91,015, and all customer deposits were fully funded.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**6. Concentrations of Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City of Redfield's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Arkansas; bonds of any city, county, school district or special road district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of deposits.

At December 31, 2019, the Department had bank balances of \$1,603,431. The amount, if any, exposed to custodial credit risk must be determined at the City level given the Department is not a separate legal entity.

**7. Risk Management**

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries or illnesses; natural disasters; and employee health, dental and accident benefits. Commercial and pooled insurance coverages are purchased for claims arising from such matters other than business interruption.

There has been no significant reduction in the Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

**8. Correction of an Error**

The Company's financial statements as of December 31, 2019, contained the following error: understatement of unbilled receivables by \$38,651. Retained earnings as of January 1, 2019, has been increased by \$38,651 to correct the aggregate effect of the errors. Had the errors not been made, net income for 2018 would have been increased by \$38,651.

**9. Subsequent Events**

**Early Repayment of 2003 Bond** – On January 31, 2020, the Department issued a check from the Sewer Reserve Fund Savings account, in the amount of \$375,603, which paid the remaining balance of the 2003 Bond that was set to mature in June 2033. The Bond had not been called by the issuer prior to the Department making the early payment.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2019**

**9. Subsequent Events (continued)**

**Liquidated Damages** – The Department entered into a contract with Environmental Process Systems, Inc (“EPS”) to build a water treatment plant and facilities in August 2017. A lawsuit was filed by EPS in the Circuit Court of Jefferson County, Arkansas on January 2, 2020 because there was a disagreement on the amount of liquidated damages that were to be withheld from the final payment to EPS. A resolution was reached in 2022 where the Department would return \$10,000 that had previously been withheld as liquidated damages. Because the amount can be reasonably estimated and is likely to occur, it has been recorded as a long-term liability on the Balance Sheet.

**Report Required by Government Auditing Standards**



N. Little Rock | Conway

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the City Council  
City of Redfield Water & Sewer Utility  
Redfield, Arkansas

We have audited, 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, the financial statements of the business-type activities of the City of Redfield Water & Sewer Utility as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise City of Redfield Water & Sewer Utility's basic financial statements, and have issued our report thereon dated August 16, 2022.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered City of Redfield Water & Sewer 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 City of Redfield Water & Sewer Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Redfield Water & Sewer Utility's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2019-01, 2019-02 and 2019-03 to be material weaknesses.

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. We noted no significant deficiencies.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether City of Redfield Water & Sewer 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as item 2019-04.

### **The Department's Response to Findings**

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

North Little Rock, Arkansas  
August 16, 2022

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2019**

**Finding 2019-01**

**Inadequate Segregation of Duties**

*Criteria:* The segregation of duties and responsibilities is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

*Condition:* Accounting duties are not sufficiently segregated to prevent, or detect and correct misstatements or misuse of funds on a timely basis.

*Context:* Adequate segregation of accounting duties in an integral part of a well-designed internal control system.

*Effect:* Without sufficient segregation of duties, the risk significantly increases that errors and fraud, including misappropriation of assets, could occur and not be detected within a timely basis.

*Cause:* The entity's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Recommendation:* Management should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including daily balancing and monthly reconciliations.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding, and will evaluate the cost and benefit of hiring additional staff to address the lack of segregated accounting duties.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2019**

**Finding 2019-02**

**Accounting System Improvements**

*Criteria:* Management is responsible for ensuring that the financial records are maintained in accordance with accounting principles generally accepted in the United States of America (GAAP).

*Condition:* Certain balances (capital assets, long-term debt, prepaid expenses, inventory, current liabilities, etc.) are not maintained on the Department's general ledger system.

*Context:* Complete financial records are necessary to be in compliance with GAAP.

*Effect:* Material account balances could be omitted from the financial statements and not be detected in a timely manner.

*Cause:* Financial records are maintained on the cash basis throughout the year and entries necessary to convert to full accrual were not made at year end.

*Recommendation:* Management should maintain all financial activity on the general ledger and make the entries necessary to ensure financial statement are in conformity with GAAP.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding, and will evaluate the cost and benefit of having an external CPA to ensure all financial activity is recorded in the general ledger and to assist in developing year-end procedures to convert to full accrual financial statements in accordance with GAAP.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2019**

**Finding 2019-03**

**Recordkeeping**

*Criteria:* Management is responsible for ensuring that the financial records documentation is maintained in accordance with auditing standards generally accepted in the United States of America (GAAS).

*Condition:* Management did not have copies of all of the documentation surrounding the additions to the Construction in Progress account.

*Context:* Observed lack of documentation from Management regarding construction in progress additions for the current year. Documentation was received from the bank that holds the construction funds and approves any payments.

*Effect:* Material additions could be omitted from the financial statements and not be detected in a timely manner or recorded incorrectly.

*Cause:* Financial documentation is maintained in paper format, with a potential of being misplaced.

*Recommendation:* Management should maintain all invoices with the proof of payment, such as check stub, in an easily accessible location.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding and will work to ensure that all proper documentation is kept up-to-date and in an easily accessible location.

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Findings and Responses**  
**For the Year Ended December 31, 2019**

**Finding 2019-04**

**Debt covenant compliance**

*Criteria:* The 2017 Bond requires an audit to be performed by a certified public accountant each year. A copy of that audit will be submitted to Arkansas Natural Resources Commission as soon as possible, but in no case later than 120 days following the period of the audit.

*Condition:* Management did not submit their audit within the 120 days of the audited period.

*Context:* Observed that the financials were submitted after 120 days of their audited period.

*Effect:* The debt could be called by the Arkansas Natural Resources Commission.

*Cause:* Management has changed accountants recently, and there have been setbacks related to the COVID-19 pandemic.

*Recommendation:* Management should make every possible effort to ensure that the audited financial statements are provided to the bond issuer no later than 120 days after year end.

*Views of Responsible  
Officials and Planned  
Corrective Actions:*

Management concurs with the finding and will work towards getting on a schedule of getting the audits completed in time to meet the deadline as set forth by the Bond issuer.

*Supplementary Information*

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Water and Sewer Rates**  
**December 31, 2019**

**Water Rates**

	Inside Corporate Limits (per 1,000 gallons)		Outside Corporate Limits (per 1,000 gallons)	
Usage Level Fixed Applies to 1,000	Fixed Charges	Per additional 1,000 gallons	Fixed Charges	Per additional 1,000 gallons
	\$19.42	\$6.10	\$22.42	\$6.10

**Sewer Rates**

Inside/Outside Corporate Limits (per 1,000 gallons)	
Fixed Charges	Per additional 1,000 gallons
\$16.00	\$3.60

*See independent auditor's report.*

**City of Redfield Water & Sewer Utility**  
**A Department of the City of Redfield, Arkansas**  
**Schedule of Insurance Coverage**  
**December 31, 2019**

	<u>Amount of Coverage</u>	<u>Policy Period</u>
Cincinnati Insurance Company		
Commercial Package	\$ 4,037,000	December 19, 2019 December 19, 2020
Municipal League		
Workers Compensation	Statutory	January 1, 2019 December 31, 2019
Vehicle	\$ 167,000	October 2, 2019 October 1, 2020
Arkansas Fidelity Bond Trust Fund		
Blanket Fidelity Bond	\$ 300,000	

*See independent auditor's report.*