

**Water and Sewer Fund of the
City of Harrison, Arkansas**

Financial Statements
December 31, 2020 and 2019

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 auditors' 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.

Basis for Qualified Opinion

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 statements of net position. Had the Utility included such obligations in the statements of net position, the amounts reported for liabilities and increases (decreases) in net position would have been materially affected.

Qualified Opinion

In our opinion, except for the effects of not including certain pension obligations in liabilities, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Fund of the City of Harrison, Arkansas, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2020 and 2019, 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 information on pages 4 and 5 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 17 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2021 on our consideration of the 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 the Water and Sewer Fund of the City of Harrison, Arkansas' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Porterfield & Company CPA, PLLC".

Porterfield & Company CPA, PLLC

Harrison, Arkansas
September 14, 2021

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019. 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 balance sheet. 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.

Financial Highlights

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Assets	\$ 21,805,355	\$ 22,819,590	\$ 23,413,100	\$ 23,634,571
Net Capital Assets	18,087,859	18,606,219	18,217,896	18,249,410
Total Liabilities	2,850,792	2,922,023	3,086,910	3,253,429
Net Position Invested in Capital Assets	16,480,091	16,833,856	16,285,682	16,160,954
Restricted Net Position	566,148	533,109	494,216	429,286
Unrestricted Net Position	1,908,324	2,530,602	3,546,292	3,790,902
Total Net Position	18,954,563	19,897,567	20,326,190	20,381,142
Total Operating Revenues	7,105,783	7,009,894	6,964,315	6,630,217
Total Operating Expenses	8,298,634	7,772,510	7,533,862	7,608,809
Total Other Revenues	249,847	333,993	514,595	336,745
Increase (Decrease) in Net Position	(943,004)	(428,623)	(54,952)	(641,847)

Total Assets - Total assets decreased approximately \$1,014,000 from December 31, 2019 to 2020. This decrease was due primarily to depreciation of capital assets and a decrease in cash. Total assets decreased approximately \$594,000 from December 31, 2018 to 2019. This decrease was due primarily to depreciation of capital assets.

Water and Sewer Fund of the City of Harrison, Arkansas
Management's Discussion and Analysis (MD&A)

Net Capital Assets - Net capital assets decreased approximately \$518,000 from December 31, 2019 to 2020. This decrease was 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. Net capital assets increased approximately \$388,000 from December 31, 2018 to 2019. This increase is due to capital additions, net of disposals, of \$1,160,000, which were offset by a net increase in accumulated depreciation of \$772,000. The additions included four purchases of heavy equipment, five vehicles, two rebuilt clarifiers, and completion of the hydrant project.

Total Liabilities - Total liabilities decreased approximately \$71,000 from December 31, 2019 to 2020. This decrease was due primarily to decreases in long-term debt of \$165,000, offset by increases in accounts payable of \$38,000, meter deposits of \$33,000 and accrued compensated absences of \$21,000. Total liabilities decreased approximately \$165,000 from December 31, 2018 to 2019, due primarily to decreases in accounts payable of \$44,000 and long-term debt of \$160,000, offset by an increase in meter deposits of \$39,000.

Total Net Position - Total net position decreased approximately \$943,000 from December 31, 2019 to 2020, due to an operating loss of approximately \$1,193,000 offset by other income of \$250,000. Total net position decreased approximately \$429,000 from December 31, 2018 to 2019, due to an operating loss of \$763,000 offset by other income of \$334,000.

Total Operating Revenues - Total operating revenues increased approximately \$96,000 from December 31, 2019 to 2020. This increase was primarily due to increases in water and sanitation revenues. Total operating revenues increased approximately \$46,000 from December 31, 2018 to 2019. This increase was primarily due to increases in sanitation and other operating revenues.

Total Operating Expenses - 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. Total operating expenses increased approximately \$239,000 from December 31, 2018 to 2019. This increase was primarily due to increases in sanitation contracted services of \$147,000, materials and supplies of \$96,000, repairs and maintenance of \$57,000, salaries, wages and related benefits of \$90,000, and utilities and telephone of \$27,000, which were offset by a decrease in water purchases of \$200,000.

Total Other Income (Expense) - Total other income (expense) decreased approximately \$84,000 from December 31, 2019 to 2020. This decrease was due primarily to decreases in infrastructure sales tax and interest income. Total other income (expense) decreased approximately \$181,000 from December 31, 2018 to 2019. This decrease was due primarily to a decrease in infrastructure sales tax revenue.

Contacting the Utility'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 114 S. Spring, Harrison, Arkansas 72601.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
Current Assets		
Cash and Cash Equivalents	\$ 609,191	\$ 2,359,837
Certificates of Deposit	1,253,293	-
Accounts Receivable, less allowance for doubtful accounts of \$63,249 and \$27,301 in 2020 and 2019	913,708	930,079
Accounts Receivable - Inter-fund	22,341	115,439
Inventory	352,815	274,907
Total Current Assets	3,151,348	3,680,262
Restricted Assets		
Meter Deposits	566,148	533,109
Total Restricted Assets	566,148	533,109
Property and Equipment, at Cost		
Land	13,085	13,085
Property and Equipment, at Cost	37,058,394	36,722,254
Accumulated Depreciation	(18,983,620)	(18,129,120)
Net Property and Equipment	18,087,859	18,606,219
Total Assets	\$ 21,805,355	\$ 22,819,590
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable - Trade	\$ 457,608	\$ 419,278
Accounts Payable - Inter-fund	275	1,539
Accrued Liabilities	58,971	57,136
Accrued Compensated Absences - Current Portion	80,428	67,187
Current Portion of Long-Term Debt	169,001	164,595
Total Current Liabilities	766,283	709,735
Liabilities Payable from Restricted Assets		
Meter Deposits	566,148	533,109
Total Liabilities Payable from Restricted Assets	566,148	533,109
Long-term Liabilities		
Accrued Compensated Absences - Long-term Portion	79,594	71,411
Long-Term Debt, net of Current Portion	1,438,767	1,607,768
Total Long-term Liabilities	1,518,361	1,679,179
Total Liabilities	2,850,792	2,922,023
Net Position		
Invested in Capital Assets, net of Related Debt	16,480,091	16,833,856
Restricted for:		
Meter Deposits	566,148	533,109
Unrestricted	1,908,324	2,530,602
Total Net Position	18,954,563	19,897,567
Total Liabilities and Net Position	\$ 21,805,355	\$ 22,819,590

See 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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Water	\$ 3,061,201	\$ 3,012,564
Sewer	1,696,209	1,679,841
Sanitation	2,239,622	2,184,317
Other Operating Income	108,751	133,172
Total Operating Revenues	<u>7,105,783</u>	<u>7,009,894</u>
Operating Expenses		
Water Purchases	1,874,963	1,622,828
Sanitation Contracted Service	2,056,176	2,003,340
Administrative and Other Expenses	3,512,995	3,374,484
Depreciation	854,500	771,858
Total Operating Expenses	<u>8,298,634</u>	<u>7,772,510</u>
Operating Income (Loss)	<u>(1,192,851)</u>	<u>(762,616)</u>
Other Income (Expense)		
Infrastructure Sales Tax Revenue	221,866	262,592
Interest Income	27,981	71,401
Total Other Income (Expense)	<u>249,847</u>	<u>333,993</u>
Increase (Decrease) in Net Position	(943,004)	(428,623)
Net Position, Beginning of Year	<u>19,897,567</u>	<u>20,326,190</u>
Net Position, End of Year	<u>\$ 18,954,563</u>	<u>\$ 19,897,567</u>

See notes to financial statements.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Cash Received from:		
Customers	\$ 7,013,403	\$ 6,846,640
Other Operating Activities	108,751	133,172
Cash Paid for:		
Water	(1,874,963)	(1,622,828)
Sanitation Contracted Service	(2,057,440)	(2,001,801)
Salaries, Wages and Related Benefits	(1,333,656)	(1,315,048)
Administrative and Other Expenses	(2,195,658)	(2,128,134)
Net Cash Provided by (Used in) Operating Activities	(339,563)	(87,999)
Cash Flows from Noncapital Financing Activities		
Infrastructure Sales Tax Revenue	314,964	285,064
Net Cash Provided by (Used in) Noncapital Financing Activities	314,964	285,064
Cash Flows from Capital Financing Activities		
Principal Payments on Long-Term Debt	(164,595)	(159,851)
Purchases of Property and Equipment	(336,140)	(1,160,181)
Net Cash Provided by (Used in) Capital Financing Activities	(500,735)	(1,320,032)
Cash Flows from Investing Activities		
Transfers (to) from Meter Deposits Restricted Assets	(33,039)	(38,893)
Increase (Decrease) in Meter Deposits Liability	33,039	38,893
Transfers (to) from Certificates of Deposit	(1,253,293)	-
Interest Income	27,981	71,401
Net Cash Provided by (Used in) Investing Activities	(1,225,312)	71,401
Net Increase (Decrease) in Cash and Equivalents	(1,750,646)	(1,051,566)
Cash and Cash Equivalents, Beginning of Year	2,359,837	3,411,403
Cash and Cash Equivalents, End of Year	\$ 609,191	\$ 2,359,837
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income (Loss)	\$ (1,192,851)	\$ (762,616)
Depreciation	854,500	771,858
Changes in Assets and Liabilities:		
Accounts Receivable	16,371	(30,082)
Inventory	(77,908)	(23,230)
Accounts Payable	38,330	(44,084)
Accounts Payable - Due to Other Funds	(1,264)	1,539
Accrued Liabilities	23,259	(1,384)
Net Cash Provided by (Used in) Operating Activities	\$ (339,563)	\$ (87,999)

Supplementary Information

Cash Paid for Interest	\$ 51,364	\$ 56,109
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See notes to financial statements.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 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.

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.

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 and 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.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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).

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.

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
DECEMBER 31, 2020 AND 2019

NOTE 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, 2020 or 2019.

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, 2020 and 2019 was \$0 and \$0, respectively.

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.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 \$160,022 and \$138,598 at December 31, 2020 and 2019, 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.

NOTE 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)	\$ 1,503,293	\$ 1,503,993
Collateralized by pledged securities	1,000,772	924,639
Total	\$ 2,504,065	\$ 2,428,632

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.

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables at December 31, 2020 and 2019 consisted of the following:

	2020	2019
Accounts Receivable – Trade	\$ 976,957	\$ 957,380
Less Allowance for Doubtful Accounts	(63,249)	(27,301)
Total Accounts Receivable	\$ 913,708	\$ 930,079

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	Estimated Useful Life (in Years)	Balance 12/31/2019	Additions	Disposals/ Transfers	Balance 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		\$ 18,606,219	\$ (518,360)	\$ -	\$ 18,087,859

	Estimated Useful Life (in Years)	Balance 12/31/2018	Additions	Disposals/ Transfers	Balance 12/31/2019
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085
Water Plant	10 - 50	10,613,203	-	-	10,613,203
Sewer Plant	50	17,061,569	336,024	(62,575)	17,335,018
Machinery and Equipment	5 - 10	2,204,138	324,289	-	2,528,427
Transportation Equipment	5 - 10	1,723,443	232,121	(47,448)	1,908,116
Furniture, Fixtures and Office Equipment	5 - 15	319,977	5,156	-	325,133
Water Meters	20	2,386,370	-	-	2,386,370
Water Lines	50	896,250	-	349,883	1,246,133
Construction in Process	N/A	467,146	262,591	(349,883)	379,854
Total Property and Equipment, at Cost		35,685,181	1,160,181	(110,023)	36,735,339
Less: Accumulated Depreciation		(17,467,285)	(771,858)	110,023	(18,129,120)
Net Property and Equipment		\$ 18,217,896	\$ 388,323	\$ -	\$ 18,606,219

Depreciation expense for the years ended December 31, 2020 and 2019 was \$854,500 and \$771,858, respectively.

NOTE 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.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 5 - ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM PLAN, (Continued)

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, 2020 and 15.32% from July 1, 2019. The Utility's contributions to APERS were \$204,033 and \$200,106 for the years ending December 31, 2020 and 2019, respectively.

NOTE 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.

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>12/31/2019</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>12/31/2020</u>
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	\$ 1,772,363	\$ -	\$ (164,595)	\$ 1,607,768
Total Debt	1,772,363	\$ -	\$ (164,595)	1,607,768
Less: Current Portion	<u>(164,595)</u>			<u>(169,001)</u>
Long-Term Portion	<u>\$ 1,607,768</u>			<u>\$ 1,438,767</u>

Maturities for the years ending December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 169,001	\$ 45,919	\$ 214,920
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
2026-2029	<u>710,547</u>	<u>41,673</u>	<u>752,220</u>
Total	<u>1,607,768</u>	<u>\$ 219,052</u>	<u>\$ 1,826,820</u>

NOTE 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, 2020 and 2019 the reimbursements were approximately \$528,000 and \$536,000, respectively.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 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, 2020

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 the contractor.

At December 31, 2020 and 2019, 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.

NOTE 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 preceding 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.

NOTE 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, 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

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 11 - WATER AND SEWER RATES, (Continued)

The rates in effect for the years ended December 31, 2019 are as follows:

	<u>Water Rates</u>	<u>Sewer Rates</u>
First 1,500 gallons	\$11.01 minimum	\$8.31 minimum
Next 25,000 gallons	\$4.70 per 1,000 GA	\$4.94 per 1,000 GA
Next 250,000 gallons	\$4.26 per 1,000 GA	\$4.82 per 1,000 GA
Usage over 250,000 gallons	\$4.34 per 1,000 GA	\$4.90 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.

NOTE 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 institutions.

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.

NOTE 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.

NOTE 14 - SUBSEQUENT EVENTS

Management of the Utility has evaluated subsequent events through September 14, 2021, the date on which the financial statements were available to be issued.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
SCHEDULES OF ADMINISTRATIVE AND OTHER EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Accounting and Auditing	\$ 273,385	\$ 269,550
Bad Debt	48,078	42,210
Billing Fee	31,683	31,327
Chemicals	20,662	36,575
Conservation	131,910	133,200
Contracted Services	99,550	85,446
Dues and Subscriptions	3,629	2,395
Fuel	39,686	58,668
Human Resources	7,950	7,803
Insurance	81,195	79,914
Interest Expense	51,364	56,109
Maintenance Fund	57,909	66,878
Material and Supplies	153,548	153,281
Other Administrative	73,420	20,052
Payroll Taxes	97,060	96,354
Permits	40,816	47,560
Planning Costs	41,572	34,082
Regulatory Compliance	-	19,339
Repairs and Maintenance	408,786	338,181
Salaries, Wages and Related Benefits	1,689,025	1,617,082
Training and Travel	4,171	16,844
Utilities and Telephone	157,596	161,634
	<u>157,596</u>	<u>161,634</u>
Total Administrative and Other Expenses	<u><u>\$ 3,512,995</u></u>	<u><u>\$ 3,374,484</u></u>

See Independent Auditors' Report.



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 the financial statements of Water and Sewer Fund of the City of Harrison, Arkansas (the Utility), a component unit of the City of Harrison, Arkansas, as of and for the years ended December 31, 2020 and 2019, and have issued our report thereon dated September 14, 2021. 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.

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.

Our consideration of internal control 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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 2020-1 and 2019-1 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 did not note any significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

The Utility's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Utility'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.



Porterfield & Company CPA, PLLC

Harrison, Arkansas
September 14, 2021

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2020 AND 2019

CURRENT YEAR FINDINGS

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 the 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 monitor adherence to this regulation.

Response: 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.

PRIOR YEAR FINDINGS

Finding Number 2019-1 - 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 the bank reconciliations we noted approximately 290 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 monitor adherence to this regulation.

Response: 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.