

**HICKORY RIDGE WATER
AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2021**

**MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396**

HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS

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CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of the City Council
Hickory Ridge Water and Sewer Department
Hickory Ridge, Arkansas 72347

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Hickory Ridge Water and Sewer Department as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hickory Ridge Water and Sewer Department's basic financial statements as listed in the table of contents.

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 Hickory Ridge Water and Sewer Department, as of December 31, 2021, 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.

Basis for 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 Hickory Ridge Water and Sewer Department 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 audit opinion.

Emphasis of Matter

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

Responsibilities of Management 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 Hickory Ridge Water and Sewer Department'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.

Auditor's Responsibilities for the Audit of the Financial Statements

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 opinion. 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 Hickory Ridge Water and Sewer Department'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 Hickory Ridge Water and Sewer Department's ability to continue as a going concern for a reasonable period of time.

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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 - 7 and 22 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hickory Ridge Water and Sewer Department's basic financial statements. The Schedule of Water and Sewer Rates 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 Schedule of Water and Sewer Rates is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of the Hickory Ridge Water and Sewer Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hickory Ridge Water and Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

September 29, 2023

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2021**

Within this section of the Hickory Ridge Water and Sewer Department's financial report, the Entity's management provides narrative discussion and analysis of the financial activities of the Entity for the year ended December 31, 2021. The Entity's financial performance is discussed and analyzed with the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Entity as a whole and present a longer term view of the Entity's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Hickory Ridge Water and Sewer Department as a whole

Our analysis of the Entity as a whole follows in the next section. The Entity operates as a business-type activity providing water utilities to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Entity's finances is "Is the Entity as a whole better off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Entity as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Entity's net position and changes in them. You can think of the Entity's net position (the difference between assets and liabilities) as one way to measure the Entity's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether the financial health is improving, or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Entity.

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2021**

Financial Highlights:

	<u>2021</u>	<u>2020</u>
Beginning Net Position	\$ 1,774,212	\$ 1,116,510
Change in Net Position	<u>162,343</u>	<u>657,702</u>
Ending Net Position	<u><u>1,936,555</u></u>	<u><u>1,774,212</u></u>

Assets, liabilities, and net position for 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Current Assets	\$ 197,389	\$ 155,614
Restricted Assets	111,801	94,107
Capital Assets	<u>2,284,687</u>	<u>1,809,454</u>
Total Assets	<u><u>\$ 2,593,877</u></u>	<u><u>\$ 2,059,175</u></u>
Current Liabilities	\$ 49,866	\$ 40,123
Long-Term Liabilities	<u>607,456</u>	<u>244,840</u>
Total Liabilities	<u><u>657,322</u></u>	<u><u>284,963</u></u>
Unrestricted	\$ 203,429	\$ 153,602
Reserved for Construction	82	82
Reserved for Depreciation	70,882	60,759
Restricted for Debt Service	14,699	14,032
Net Investment in Capital Assets	<u>1,647,463</u>	<u>1,545,737</u>
Total Net Position	<u><u>\$ 1,936,555</u></u>	<u><u>\$ 1,774,212</u></u>

The following schedule presents a summary of revenues and expenses for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Operating Revenues	\$ 171,412	\$ 146,390
Operating Expenses	<u>117,747</u>	<u>94,143</u>
Operating Income	53,665	52,247
Other Income (Expenses)	<u>108,678</u>	<u>605,455</u>
Change in Net Position	<u><u>\$ 162,343</u></u>	<u><u>\$ 657,702</u></u>

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (cont'd)
DECEMBER 31, 2021**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At year end December 31, 2021, the Entity had \$ 2,284,687 invested in capital assets. This represents a net increase of \$ 475,233 which is the result of depreciation expense recognized of \$ 44,161, and capital asset additions of \$ 519,394.

Debt:

At year end, the Entity had outstanding debt of \$ 637,224 which is the result of \$ 389,967 funds borrowed and loan repayments of \$ 16,460.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Entity has complete the water line improvement project in 2021. There are not any future plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Entity's finances and to show the Entity's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mayor Tillman Kennon, 870-697-2201.

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

ASSETS

Current Assets	
Cash	\$ 173,938
Accounts Receivable - Customers	23,451
Total Current Assets	<u>197,389</u>
Restricted Assets	
Cash	<u>111,801</u>
Property, Plant and Equipment	
Land	49,693
Water and Sewer Utility	2,830,766
Equipment	24,860
Less: Accumulated Depreciation	<u>(620,632)</u>
Net Property, Plant and Equipment	<u>2,284,687</u>
Total Assets	<u><u>\$ 2,593,877</u></u>

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

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2021**

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 3,759
Due to Other Funds	4,564
Current Maturities of Long Term Debt	29,768
	38,091
Payable From Restricted Assets:	
Customer Meter Deposits	11,775
	607,456
Long- Term Debt, less current portion	607,456
Total Liabilities	657,322
Net Position:	
Net Investment in Capital Assets	1,647,463
Restricted for Construction	82
Reserved for Depreciation	70,882
Restricted for Debt Service	14,699
Unrestricted	203,429
Total Net Position	1,936,555
Total Liabilities and Net Position	\$ 2,593,877

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

**HICKOR RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021**

Operating Revenues:	
Water Sales	\$ 92,397
Sewer Sales	69,637
Other Revenues	9,378
Total Operating Revenues	<u>171,412</u>
Operating Expenses:	
Depreciation	44,161
Salaries	32,680
Utilities	16,505
Repairs and Maintenance	11,318
Insurance	1,050
Dues and Fees	3,239
Miscellaneous	2,289
Legal and Professional	3,750
Office Supplies and Postage	1,110
Payroll Taxes	1,645
Total Operating Expense	<u>117,747</u>
OPERATING INCOME (LOSS)	<u>53,665</u>
Non-Operating Revenues (Expenses)	
Interest Expense	(10,093)
Contributed Capital	109,084
Grant Proceeds - American Rescue Recovery Funds	9,248
Interest Income	439
Total Non-operating Revenues (Expenses)	<u>108,678</u>
Change in Net Position	<u>162,343</u>
Beginning Net Position	<u>1,774,212</u>
Ending Net Position	<u><u>\$ 1,936,555</u></u>

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

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 167,117
Payments to suppliers	(42,054)
Payments to employees	(32,680)
Net cash provided by operating activities	<u>92,383</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of capital equipment	(410,310)
Principal paid on capital debt	(16,460)
Interest paid on capital debt	(10,093)
Proceeds from loans	389,967
Proceeds from Grants	9,248
Net cash provided (used) by capital and related activities	<u>(37,648)</u>
Cash Flows from Investing Activities:	
Interest income	439
Certificates of Deposit (purchases) maturities	-
Net transfers (to) from other funds	-
Net transfers (to) from restricted accounts	(17,694)
Net cash provided (used) by investing activities	<u>(17,255)</u>
Increase (Decrease) in cash and cash equivalents	37,480
Cash and cash equivalents, beginning of year	<u>136,458</u>
Cash and cash equivalents, end of year	<u>\$ 173,938</u>

(statement continued on next page)

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

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021**

Reconciliation of Operating Income to Net Cash Provided by	
(Used in) Operating Activities:	
Operating Income (Loss)	\$ 53,665
Depreciation	44,161
(Increase) Decrease in Accounts Receivable	(4,295)
Increase (Decrease) in Accounts Payable and Accrued Expenses	(1,528)
Increase (Decrease) in Customer Meter Deposits	380
Net Cash Provided by (Used in) Operating Activities	<u>\$ 92,383</u>

The accompanying notes are an integral part of the financial statements

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Financial Reporting Entity – Hickory Ridge Water and Sewer Department is a department of the City of Hickory Ridge, Arkansas. The accompanying financial statements present only the Hickory Ridge Water and Sewer Department and do not include all funds, account groups, and programs controlled by the City of Hickory Ridge. Other activities, funds, and account groups and programs are included in a government wide audit performed by the Arkansas Division of Legislative Audit.

The Water and Sewer Department serves the City of Hickory Ridge, and some of the rural residents of the surrounding area.

Basis of accounting – The Hickory Ridge Water and Sewer Department uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents – The Hickory Ridge Water and Sewer Department considers all cash, savings accounts, and certificate of deposits purchased with a maturity of three months or less to be cash equivalents. However, all cash balances designated as restricted are excluded from Cash Equivalents.

Accounts Receivable - Accounts Receivable is presented at estimated net realizable value. Accounts receivable results from water and sewer services provided to consumers. Accounts receivable is collateralized by customer deposits

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE A- ORGANIZATION AND SUMMARY OF SIGNFICANT ACCOUNTING POLICIES (CONT'D)

Property and Equipment – Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized, while minor repairs, replacements, and maintenance which does not improve or extend the life of such assets are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated lives of the assets, which range from 5 years for computer and transportation equipment to 50 years for water and sewer system.

Restricted Assets - The Hickory Ridge Water and Sewer Department is required under the terms of various bond ordinances to establish and maintain prescribed cash balances that can only be used for specific purposes.

Risk Management - The Hickory Ridge Water and Sewer Department minimizes risk of loss through purchase of commercial insurance coverage.

Compensated Absences - No accrual has been made for compensated absences because the amounts would not be material.

Sales Tax – The Entity is subject to state and local sales taxes. Revenues are presented net of sales taxes.

Contributed Capital – Contributed Capital represents the net carrying value of assets acquired by the transfer of ownership of City of Fisher’s sewer system to the City of Hickory Ridge.

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS

The entity’s policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The entity’s deposits are categorized to give an indication of the level of risk assumed by the entity. The categories are described as follows:

Category 1- Insured or collateralized by the entity or by its agent in the entity’s name.

Category 2- Collateralized with securities held by the pledging financial institution’s trust department or by its agent in the entity’s name.

Category 3- Uncollateralized.

NOTE B – DEPOSITS WITH FINANCIAL INSTITUTIONS – (CONT’D)

At December 31, 2021, cash deposits categorized by level of risk are as follows:

carrying amount	category		
	1	2	3
\$ 285,739	\$ 250,000	\$ 35,739	\$ -

NOTE C- PROPERTY AND EQUIPMENT

A summary of property, plant and equipment, and accumulated depreciation for the entity is presented below:

	12/31/2020	Additions	Deletions	12/31/2021
Not subject to depreciation:				
Land	\$ 49,693	\$ -	\$ -	\$ 49,693
Construction in Progress	811,128		811,128	-
Subject to depreciation:				
Water and Sewer Utility	1,401,549	1,429,217		2,830,766
Equipment	24,860			24,860
	<u>2,287,230</u>	<u>1,429,217</u>	<u>811,128</u>	<u>2,905,319</u>
Accumulated Depreciation	(477,776)	(142,856)		(620,632)
Net Property, Plant and Equipment	<u>\$ 1,809,454</u>	<u>\$ 1,286,361</u>	<u>\$ 811,128</u>	<u>\$ 2,284,687</u>

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE D- LONG TERM LIABILITIES

The following is a summary of the Hickory Ridge Water Department's long-term liabilities.

	2021
5.0% Note Payable to USDA Rural Development due in monthly payments of \$ 543 through 2031, secured by pledge of future revenues.	\$ 52,465
1.75% Note Payable to Arkansas Natural Resource Commission, due in semi-annual payments of \$ 17,953 through 2027 secured by pledge of future revenue	584,759
	637,224
Less Current Maturities	(29,768)
	\$ 607,456

A summary of future payments required at December 31, 2021 is as follows:

	Principal	Interest	Total
For the years ending December 31,			
2022	\$ 29,768	\$ 12,654	\$ 42,422
2023	30,425	11,997	42,422
2024	31,069	11,353	42,422
2025	31,795	10,627	42,422
2026	32,509	9,913	42,422
For the five years period ending December 31,			
2031	173,976	38,134	212,110
2036	161,037	20,623	181,660
2041	146,645	6,189	152,834
	\$ 637,224	\$ 121,490	\$ 758,714

**HICKORY RIDGER WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE D- LONG TERM LIABILITIES – cont.

A summary of long-term debt activity is as follows:

<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2021</u>
<u>\$ 263,717</u>	<u>\$ 389,967</u>	<u>\$ 16,460</u>	<u>\$ 637,224</u>

NOTE E – RESTRICTED ASSETS

The Debt Service Reserve and Depreciation Reserve cash accounts have been established pursuant to agreements with U.S. Rural Development and Arkansas Development Finance Authority. These accounts are to maintain monthly transfers as defined by loan agreements and are restricted for retirement of long-term debt, and repairs.

Restricted Accounts at December 31, 2021 consists of:

Cash:	
Rural Development - Debt Service	\$ 14,699
Customer's Deposit Reserve	20,170
Depreciation	70,882
ADFA Escrow	5,967
ANRC Water Fund	83
	<u>\$ 111,801</u>

At December 31, 2021, the Hickory Ridge Water and Sewer Department was required to have debt service reserves of \$ 6,516 and depreciation reserve funds of \$ 58,476. At December 31, 2021, the Hickory Ridge Water and Sewer Department was in compliance with USDA and ADFA reserve requirements. The Entity had debt service reserve balances of \$ 14,699 and depreciation reserve funds of \$ 70,882.

**HICKORY RIDGER WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

NOTE F – DUE TO OTHER FUNDS

Due to other funds consists of amounts billed for mosquito control, trash pickup and amounts owed to The City of Hickory Ridge, AR general fund. Amounts due to the City of Hickory Ridge, AR at December 31, 2021 are as follows:

Mosquito Control	\$ 917
Due to General Fund	1,478
Trash Pickup	<u>2,169</u>
	<u>\$ 4,564</u>

NOTE G – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2023, the date of this report. No items noted which would require disclosure.

NOTE H – FISHER SEWER SYSTEM ANNEXATION

The City of Hickory Ridge and City of Fisher have agreed to regionalize Fisher’s sewer system into the Hickory Ridge sewer system with Hickory Ridge providing all necessary operation and maintenance. On January 1, 2021, the City of Fisher transferred the assets comprising of the sewer lines and sewer pumps having a carrying value of \$109,084.

NOTE I – NONCASH TRANSACTIONS

The Fisher Sewer System Annexation (see note H) was a noncash transaction which resulted in a net increase of \$ 109,084 in Property, Plant and Equipment, and Contributed Capital.

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

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 Mayor and Members of the City Council
Hickory Ridge Water and Sewer Department
Hickory Ridge, Arkansas 72347

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Hickory Ridge Water and Sewer Department, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hickory Ridge Water and Sewer Department's basic financial statements, and have issued our report thereon dated September 29, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hickory Ridge Water and Sewer Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hickory Ridge Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hickory Ridge Water and Sewer Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (#21-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hickory Ridge Water and Sewer Department'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 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.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

September 29, 2023

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2021**

21-001 Segregation of duties

CONDITION: The Hickory Ridge Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal control.

CRITERIA: Segregation of duties provides for independent review and approval of all transactions at various stages of the transaction process. Adequate segregation of duties is an essential part of effective internal control structure.

EFFECT: Inadequate segregation of duties reduces the Entity's internal control over financial reporting, processing of transactions, and safeguarding of assets.

RECOMMENDATION: The Entity's management should review all transactions, and accounting records, and reconciliations, in order to compensate for the limited number of employees. Such review should be performed at least monthly and documented.

RESPONSE: Additional employees for the purpose of improving internal controls would not be cost beneficial. Currently, all employees are supervised by management, and financial records reviewed monthly by the council.

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2021**

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
OPERATING REVENUES:			
Water Fees	\$ 92,397	\$ 71,834	\$ 20,563
Sewer Fees	69,637	66,821	2,816
Other Revenues	9,378	7,735	1,643
Total Operating Revenues	<u>171,412</u>	<u>146,390</u>	<u>25,022</u>
OPERATING EXPENSES:			
Depreciation	44,161	10,017	34,144
Salaries	32,680	31,190	1,490
Utilities	16,505	24,034	(7,529)
Repairs and Supplies	11,318	11,755	(437)
Insurance	1,050	1,342	(292)
Dues and Fees	3,239	5,990	(2,751)
Miscellaneous	2,289	4,220	(1,931)
Professional Fees	3,750	1,190	2,560
Office Supplies and Postage	1,110	1,953	(843)
Payroll Taxes	1,645	2,452	(807)
Total Operating Expenses	<u>117,747</u>	<u>94,143</u>	<u>23,604</u>
Income (Loss) from Operations	53,665	52,247	1,418
OTHER INCOME (EXPENSES)			
Interest Expense	(10,093)	(2,948)	(7,145)
Contributed Capital	109,084		109,084
Grants Proceeds - American Rescue Recovery Fund	9,248		9,248
Interest Income	439	473	(34)
Net Other Income (Expenses)	<u>108,678</u>	<u>(2,475)</u>	<u>111,153</u>
Change in Net Position	<u>\$ 162,343</u>	<u>\$ 49,772</u>	<u>\$ 112,571</u>

**HICKORY RIDGE WATER AND SEWER DEPARTMENT
CITY OF HICKORY RIDGE, ARKANSAS
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2021**

For user's inside city limits:

	<u>Water</u>	<u>Sewer</u>
First 4,000 Gallons	\$ 42.00	\$ 16.88
Per 1,000 Gallons after	\$ 5.31	\$ 5.31

For user's outside city limits:

	<u>Water</u>
First 4,000 Gallons	\$ 49.00
Per 1,000 Gallons after	\$ 5.31

For Fisher sewer user's:

	<u>Sewer</u>
First 2,000 Gallons	\$ 20.38
Per 1,000 Gallons after	\$ 5.31