

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
Shannon Hills, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2021
and
INDEPENDENT AUDITOR'S REPORT

**SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2021**

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Honorable Mike Kemp, Mayor
Shannon Hills City Council
Shannon Hills, Arkansas

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of the Water, Sewer, and Fire Departments of the City of Shannon Hills, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed on 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 Water, Sewer, and Fire Departments of the City of Shannon Hills as of December 31, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Water, Sewer, and Fire Departments of the City of Shannon Hills, 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 1, the financial statements present only the Water, Sewer, and Fire Departments and do not purport to, and do not, present fairly the financial position of the City of Shannon Hills, Arkansas, as of December 31, 2021, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibility of Management 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.

**Shannon Hills Water, Sewer, and Fire Departments
Shannon Hills, Arkansas**

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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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 Water, Sewer, and Fire Departments of the City of Shannon Hills'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Water, Sewer, and Fire Departments of the City of Shannon Hills'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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2024 on our consideration of the Water, Sewer, and Fire Departments of the City of Shannon Hills'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 Water, Sewer, and Fire Departments of the City of Shannon Hills's internal control over financial reporting and compliance.



BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
June 24, 2024

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
STATEMENT OF NET POSITION
December 31, 2021

<u>ASSETS</u>			
	<u>Water and Sewer</u>	<u>Fire</u>	<u>Total</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 348,697	\$ 576,708	\$ 925,405
Accounts receivable	123,762	10,037	133,799
Other current asset	5,000	-	5,000
Total current assets	477,459	586,745	1,064,204
NON-CURRENT ASSETS			
Restricted cash and cash equivalents	326,161	26,896	353,057
Capital assets, net of accumulated depreciation	5,152,332	207,088	5,359,420
TOTAL ASSETS	\$ 5,955,952	\$ 820,729	\$ 6,776,681
<u>LIABILITIES AND NET POSITION</u>			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 193,900	\$ -	\$ 193,900
Accounts payable	16,960	934	17,894
Accrued interest payable	78,562	-	78,562
Due to other funds	10,037	-	10,037
Total current liabilities	299,459	934	300,393
LONG-TERM DEBT, net of current maturities	3,917,495	-	3,917,495
TOTAL LIABILITIES	4,216,954	934	4,217,888
NET POSITION			
Net investment in capital assets	1,040,936	207,089	1,248,025
Temporarily restricted	155,525	-	155,525
Unrestricted	542,537	612,706	1,155,243
TOTAL NET POSITION	1,738,998	819,795	2,558,793
TOTAL LIABILITIES AND NET POSITION	\$ 5,955,952	\$ 820,729	\$ 6,776,681

The accompanying notes are an integral part of these statements.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2021

	<u>Water and Sewer</u>	<u>Fire</u>	<u>Total</u>
OPERATING REVENUES			
Water revenue	\$ 481,369	\$ -	\$ 481,369
Sewer revenue	576,436	-	576,436
Connection and special service fees	118,961	-	118,961
Penalty revenue	75,919	-	75,919
Fire dues	-	109,467	109,467
Act 833	-	28,606	28,606
Total operating revenues	<u>1,252,685</u>	<u>138,073</u>	<u>1,390,758</u>
OPERATING EXPENSES			
Advertising	-	3,180	3,180
Bank service charges	1,073	56	1,129
Water purchased	195,697	-	195,697
Repairs and maintenance	63,812	14,285	78,097
Plant material and supplies	155,104	-	155,104
Professional fees	3,030	120	3,150
Dues and fees	28,998	685	29,683
Salaries	168,114	24,604	192,718
Payroll taxes	13,300	1,875	15,175
Retirement expense	31,785	5,332	37,117
Small equipment	1,469	13,446	14,915
Office expense	14,214	657	14,871
Depreciation	273,581	35,031	308,612
Utilities	78,783	7,793	86,576
Fuel and oil	16,849	3,035	19,884
Uniforms	11,657	214	11,871
Contract labor	61,624	771	62,395
Insurance	51,198	6,813	58,011
Miscellaneous	-	11,352	11,352
Total operating expenses	<u>1,170,288</u>	<u>129,249</u>	<u>1,299,537</u>
OPERATING INCOME	<u>82,397</u>	<u>8,824</u>	<u>91,221</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	472	441	913
Interest expense	(138,528)	-	(138,528)
Bond trust fees	(2,883)	-	(2,883)
Bad debt expense	(16)	-	(16)
Other revenue	51,495	-	51,495
Net non-operating income (expenses)	<u>(89,460)</u>	<u>441</u>	<u>(89,019)</u>
CHANGE IN NET POSITION	<u>(7,063)</u>	<u>9,265</u>	<u>2,202</u>
NET POSITION - BEGINNING OF YEAR	<u>1,746,061</u>	<u>810,530</u>	<u>2,556,591</u>
NET POSITION - END OF YEAR	<u>\$ 1,738,998</u>	<u>\$ 819,795</u>	<u>\$ 2,558,793</u>

The accompanying notes are an integral part of these statements.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

	<u>Water & Sewer</u>	<u>Fire</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,249,817	\$ 137,837	\$ 1,387,654
Cash payments to employees	(168,114)	(24,604)	(192,718)
Cash payments for supplies	(745,101)	(70,892)	(815,993)
Net cash provided by operating activities	<u>336,602</u>	<u>42,341</u>	<u>378,943</u>
Cash flows from investing activities:			
Change in restricted cash	58,686	(6,032)	52,654
Other non operating revenue	51,495	-	51,495
Interest received	472	441	913
Net cash provided (used) by investing activities	<u>110,653</u>	<u>(5,591)</u>	<u>105,062</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	(137,361)	-	(137,361)
Principal payments on long-term debt	(180,162)	-	(180,162)
Bond fees on long-term debt	(2,883)	-	(2,883)
Proceeds from long-term debt	86,312	-	86,312
Interest payments on long-term debt	(130,896)	-	(130,896)
Net cash used by financing activities	<u>(364,990)</u>	<u>-</u>	<u>(364,990)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,265	36,750	119,015
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>266,432</u>	<u>539,958</u>	<u>806,390</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 348,697</u>	<u>\$ 576,708</u>	<u>\$ 925,405</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating Income	\$ 82,397	\$ 8,824	\$ 91,221
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	273,581	35,031	308,612
(Increase) Decrease in:			
Accounts receivable	(2,879)	(236)	(3,115)
Prepaid expenses	(5,000)	-	(5,000)
Increase (Decrease) in:			
Accounts payable	(11,733)	(1,278)	(13,011)
Due to other funds	236	-	236
	<u>254,205</u>	<u>33,517</u>	<u>287,722</u>
Net cash provided by operating activities	<u>\$ 336,602</u>	<u>\$ 42,341</u>	<u>\$ 378,943</u>

The accompanying notes are an integral part of these statements.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management's Review

Subsequent events have been evaluated through June 24, 2024, which is the date the financial statements were available to be issued.

Reporting Entity

The Shannon Hills Water and Sewer Department is an enterprise fund of the City of Shannon Hills, Arkansas. The enterprise fund accounts for its activities similar to a private business. Operational activities of the Water and Sewer Departments include the administration, operation and maintenance of the water system and billing collection activities. All costs are financed through charges to customers.

The Shannon Hills Fire Department is a special revenue fund of the City of Shannon Hills, Arkansas. The special revenue fund is used to account for and report the proceeds of fire dues that are restricted or committed to expenditure for the specified purposes of operating the Fire Department.

Basis of Presentation and Accounting

The accounts of the Water and Sewer Department and the Fire Department are organized on the basis of a proprietary fund type, specifically an enterprise fund and special revenue fund, respectively. The activities of these funds are accounted for with a separate set of self-balancing accounts that comprise the Water and Sewer Department's, and the Fire Department's assets, liabilities, net assets, revenues and expenses. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Water, Sewer, and Fire Departments are determined by its measurement focus. The transactions of the Water, Sewer, and Fire Departments are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net position (i.e., total assets net of total liabilities) is segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Water, Sewer, and Fire Departments have made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Water, Sewer, and Fire Departments consider all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Water, Sewer, and Fire Departments defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on Departments borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses and changes in net assets. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

<u>Asset</u>	<u>Years</u>
Vehicles	5-15 years
Water & Sewer Facilities	5-40 years
Building	5-40 years
Equipment	5-15 years
Improvements	5-15 years
Office Furniture	5-10 years

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Water, Sewer, and Fire Departments. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Water, Sewer, and Fire Departments' policy to apply those expenses to unrestricted net assets to the extent such are available and then to restricted net assets.

Equity Classifications

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Temporarily Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted."

Receivables

The Departments have elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of December 31, 2021 management had determined that minimal accounts needed to be written off. Bad debt expense for the year ended December 31, 2021 was \$16.

Restricted Assets

Certain proceeds of the Departments' revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements, are classified as restricted assets on the Statement of Net Position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Budgets and Budgetary Accounting

Prior to the beginning of the new year, the City Council adopts an annual budget for the Department. The budget of the Departments is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at year-end.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 2 - RESTRICTED CASH

Restricted assets consist of cash reserves restricted by long-term debt covenants. The long-term debt covenants require minimum reserves for debt service reserves (see Note 6).

Act 833 Account

The State of Arkansas created Act 833 whereby funds related to insurance premiums are turned back to various rural fire departments. The fire department is restricted to using the proceeds for items such as turnouts and certain fire fighting equipment. The Act 833 cash account represents the balance of undisbursed monies as of December 31, 2021.

Restricted cash held for specific purposes are as follows:

Debt Service Reserves	\$	155,525
Bond Fund		170,636
Act 833		<u>26,896</u>
Total Restricted Cash	\$	<u><u>353,057</u></u>

NOTE 3 – PUBLIC DEPARTMENTS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all Departments are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation (“FDIC”) or collateralized by securities held by the banks in the Water, Sewer, and Fire Department’s name.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

<u>Description</u>	<u>Balance at</u> <u>December 31, 2020</u>	<u>Additions</u>	<u>Disposals/</u> <u>Transfers</u>	<u>Balance at</u> <u>December 31, 2021</u>
Land	\$ 36,218	\$ -	\$ -	\$ 36,218
Land, Wetlands Project	56,541	-	-	56,541
Building	108,122	-	-	108,122
Equipment	1,066,357	-	-	1,066,357
Fire Department	12,408	-	-	12,408
Improvements	143,813	-	-	143,813
Office Furniture	13,876	-	-	13,876
Truck & Equipment	428,916	86,312	-	515,228
Water & Sewer Facilities	8,318,934	51,049	-	8,369,983
Construction in Progress	<u>16,500</u>	<u>-</u>	<u>-</u>	<u>16,500</u>
Total Capital Assets	<u>10,201,685</u>	<u>137,361</u>	<u>-</u>	<u>10,339,046</u>
Accumulated Depreciation	<u>(4,671,014)</u>	<u>(308,612)</u>	<u>-</u>	<u>(4,979,626)</u>
Net Capital Assets	<u><u>\$ 5,530,671</u></u>	<u><u>\$ (171,251)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,359,420</u></u>

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 5 - RETIREMENT PLAN

Plan Description. The Shannon Hills Water, Sewer, and Fire Departments contribute 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. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code 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% of annual covered payroll. The Department's contributions to APERS for the years ending December 31, 2023 was \$31,785 equal to the required contributions for the year.

Requirements. GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, which establishes standards for public pension plan obligations for participating employers. A cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal, but would be included in the government wide financial statements and not the individual fund financial statements.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 6 - LONG-TERM DEBT:

Long-term debt at December 31, 2021 consists of the following:

Series 2015 Refunding Bond, payable to First Arkansas Bank & Trust, due in monthly installments of variable amounts, including interest at a variable rate, beginning July 2015 through July 2039. (1)	\$ 4,005,000
Loan from Bancorp South, due in monthly installments of \$1,077, including interest at a rate of 2.59%, beginning January 2021 through March 2024. Secured by equipment. (2)	28,220
Loan from Bancorp South, due in monthly installments of \$1,535, including interest at a rate of 2.59%, beginning June 2021 through June 2026. Secured by equipment. (2)	78,175
Total Long Term Debt	<u>4,111,395</u>
Less Current Portion	<u>(193,900)</u>
Long-Term Portion	<u>\$ 3,917,495</u>

(1) The revenue bonds have restrictive covenants including the requirement to maintain a debt service reserve in the amount of \$155,525.

(2) This loan has no restrictive covenants.

Future debt service payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 193,900	\$ 121,075	\$ 314,975
2023	204,700	115,325	320,025
2024	195,720	109,361	305,081
2025	202,900	103,700	306,600
2026	204,175	106,875	311,050
2027-2031	1,040,000	485,839	1,525,839
2032-2036	1,230,000	295,265	1,525,265
2037-2039	840,000	63,750	903,750
	<u>\$ 4,111,395</u>	<u>\$ 1,401,190</u>	<u>\$ 5,512,585</u>

Long-term liability activity for the year ended December 31, 2021 is as follows:

	<u>Balance</u> <u>12/31/2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2021</u>	<u>Due Within</u> <u>One Year</u>
Revenue Bonds	\$ 4,165,000	\$ -	\$ (160,000)	\$ 4,005,000	\$ 165,000
Loans	40,245	86,312	(20,162)	106,395	28,900
	<u>\$ 4,205,245</u>	<u>\$ 86,312</u>	<u>\$ (180,162)</u>	<u>\$ 4,111,395</u>	<u>\$ 193,900</u>

The Departments have pledged future customer revenues, net of specified operating expenses, to repay \$4,111,395 in revenue bonds and loans. Proceeds from the bonds and loans were used for constructing the Departments' office and purchase of equipment. Principal and interest on the bonds and loans are payable through 2039, solely from the customer net revenues. Principal and interest paid in the year ended December 31, 2021 were \$180,162 and \$130,896 respectively.

SUPPLEMENTARY INFORMATION



Honorable Mike Kemp, Mayor
Shannon Hills City Council
Shannon Hills, Arkansas

**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***

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 Shannon Hills Water, Sewer, and Fire Departments, (the Departments), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Departments' financial statements and have issued our report thereon dated June 24, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Departments' 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 Departments' internal control. Accordingly, we do not express an opinion on the effectiveness of the Departments' 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 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 in 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item number 2022-001 and 2022-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Departments' 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*.

Honorable Mike Kemp, Mayor
Shannon Hills City Council
Shannon Hills, Arkansas

Response to Findings

The Water, Sewer and Fire Departments of the City of Shannon Hills, Arkansas' responses to the findings identified in our audit are described in the accompanying schedule of findings. The Departments' responses were 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.



Berry & Associates, P.A.
Little Rock, Arkansas
June 24, 2024

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2021

2021-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping and those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual is responsible for service billing, receiving customer payments, and posting payments to subsidiary accounts receivable ledger. This finding was also noted in 2020.

Cause: The Departments' 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.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the City Council should consider a formal evaluation of their risks associated with this lack of duty segregation over cash and receivables. 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. For example, the entity might consider soliciting the assistance of an independent volunteer to perform certain functions including to act as compensating procedures where applicable.

View of Responsible Officials: The Departments concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Departments have made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as applicable.

2021-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2021 the Departments' general ledger did not include the current year's transactions for several trust accounts that are administered by third parties that are a material part of the financial statements. This finding was also noted in 2020.

Cause: The Departments did not properly record transactions and maintain accounting records.

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Departments' internal financial statements. With these accounts missing, it does not permit the preparation of accurate and reliable financial statements.

Recommendation: We recommend that management of the Departments properly records all transactions and appropriately maintains all accounting records in a timely manner.

View Of Responsible Officials: The Departments concurs with the recommendation.

**SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
SUPPLEMENTARY INFORMATION
December 31, 2021**

THE CITY COUNCIL:

<u>NAMES</u>	<u>TITLE</u>
Mike Kemp	Mayor
Robin Baker	Recorder
Mary Meyers	Treasurer
Toni Blackwell	Alderman
James Frala	Alderman
Keith Andrews	Alderman
Jill Hatcher	Alderman
Mary Guinn	Alderman
Scott Bennett	Alderman

WATER RATE SCHEDULE:

<u>Gallons</u>	<u>Water</u> <u>(Per 1,000 Gallons)</u>	<u>Sewer</u> <u>(Per 1,000 Gallons)</u>
Minimum 1,500	\$ 14.10	\$ 18.70
Remaining	4.13	3.30
	<u>Flat Rate</u>	
Safe Water	\$ 0.40	
Fire Dues	6.00	
Regional Water	0.25	
Watershed Protection	0.75	

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are being properly maintained.