

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
Shannon Hills, Arkansas
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2023
and
INDEPENDENT AUDITOR'S REPORT

**SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2023**

| <u>Contents</u> | <u>Page</u> |
|---|-------------|
| Independent Auditor's Report..... | 1-2 |
| Statement of Net Position | 3 |
| Statement of Revenues, Expenses and Changes in Net Position | 4 |
| Statement of Cash Flows | 5 |
| Notes to Financial Statements | |
| Note 1 - Summary of Significant Accounting Policies | 6-7 |
| Note 2 - Restricted Cash..... | 8 |
| Note 3 - Deposits with Financial Institutions | 8 |
| Note 4 - Capital Assets..... | 8 |
| Note 5 - Retirement Plan | 9 |
| Note 6 - Long-Term Debt..... | 9-10 |
| Note 7 - Subsequent Events..... | 10 |
| Note 8 - Embezzlement and Misappropriation of Funds..... | 10 |
| 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 <i>Government Auditing Standards</i> | 11-12 |
| Schedule of Findings and Responses..... | 13-14 |
| Supplementary Information | |
| Supplementary Information | 15 |



Berry & Associates
CERTIFIED PUBLIC ACCOUNTANTS

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

Page 1

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, 2023, 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, 2023, 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, 2023, 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.

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 Departments' 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.

11225 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791 •

jberry@berryassociatescpa.com

2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919

PO Box 2485 • Madison, MS 39130 • 601-383-0119

**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 10, 2025 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 10, 2025

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
STATEMENT OF NET POSITION
December 31, 2023

| <u>ASSETS</u> | | | |
|--|------------------------|-------------------|---------------------|
| | <u>Water and Sewer</u> | <u>Fire</u> | <u>Total</u> |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | \$ 218,253 | \$ 231,726 | \$ 449,979 |
| Accounts receivable | 149,700 | 10,492 | 160,192 |
| Total current assets | 367,953 | 242,218 | 610,171 |
| NON-CURRENT ASSETS | | | |
| Restricted cash and cash equivalents | 320,215 | 33,335 | 353,550 |
| Capital assets, net of accumulated depreciation | 4,759,689 | 534,186 | 5,293,875 |
| TOTAL ASSETS | \$ 5,447,857 | \$ 809,739 | \$ 6,257,596 |
| <u>LIABILITIES AND NET POSITION</u> | | | |
| CURRENT LIABILITIES | | | |
| Current maturities of long-term debt | \$ 192,500 | \$ - | \$ 192,500 |
| Accounts payable | 43,345 | 5,700 | 49,045 |
| Accrued interest payable | 73,917 | - | 73,917 |
| Total current liabilities | 309,762 | 5,700 | 315,462 |
| LONG-TERM DEBT, net of current maturities | 3,517,051 | - | 3,517,051 |
| TOTAL LIABILITIES | 3,826,813 | 5,700 | 3,832,513 |
| NET POSITION | | | |
| Net investment in capital assets | 1,050,138 | 534,186 | 1,584,324 |
| Temporarily restricted | 155,525 | - | 155,525 |
| Unrestricted | 415,381 | 269,853 | 685,234 |
| TOTAL NET POSITION | 1,621,044 | 804,039 | 2,425,083 |
| TOTAL LIABILITIES AND NET POSITION | \$ 5,447,857 | \$ 809,739 | \$ 6,257,596 |

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, 2023

| | <u>Water and Sewer</u> | <u>Fire</u> | <u>Total</u> |
|--|------------------------|-------------------|---------------------|
| OPERATING REVENUES | | | |
| Water revenue | \$ 827,046 | \$ - | \$ 827,046 |
| Sewer revenue | 747,097 | - | 747,097 |
| Connection and special service fees | 118,971 | - | 118,971 |
| Penalty revenue | 76,853 | - | 76,853 |
| Fire dues | - | 133,787 | 133,787 |
| Act 833 | - | 64,994 | 64,994 |
| Total operating revenues | <u>1,769,967</u> | <u>198,781</u> | <u>1,968,748</u> |
| OPERATING EXPENSES | | | |
| Advertising | - | 2,927 | 2,927 |
| Bank service charges | 1,391 | 129 | 1,520 |
| Water purchased | 235,846 | - | 235,846 |
| Repairs and maintenance | 34,910 | 71,396 | 106,306 |
| Plant material and supplies | 347,916 | - | 347,916 |
| Professional fees | 17,525 | 4,500 | 22,025 |
| Dues and fees | 17,047 | 25 | 17,072 |
| Salaries | 230,017 | 26,339 | 256,356 |
| Payroll taxes | 31,286 | 5,904 | 37,190 |
| Retirement expense | 45,193 | 5,928 | 51,121 |
| Small equipment | - | 4,854 | 4,854 |
| Office expense | 20,510 | 688 | 21,198 |
| Depreciation | 265,292 | 36,074 | 301,366 |
| Utilities | 90,115 | 14,390 | 104,505 |
| Fuel and oil | 22,152 | 5,782 | 27,934 |
| Uniforms | 1,768 | 837 | 2,605 |
| Contract labor | 162,139 | 1,155 | 163,294 |
| Insurance | 160,202 | 9,389 | 169,591 |
| Miscellaneous | 2,089 | 4,264 | 6,353 |
| Total operating expenses | <u>1,685,398</u> | <u>194,581</u> | <u>1,879,979</u> |
| OPERATING INCOME | <u>84,569</u> | <u>4,200</u> | <u>88,769</u> |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | 12,520 | 161 | 12,681 |
| Interest expense | (131,251) | - | (131,251) |
| Bond trust fees | (6,338) | - | (6,338) |
| Embezzlement expense | (8,680) | - | (8,680) |
| Other revenue | 50,364 | 591 | 50,955 |
| Net non-operating income (expenses) | <u>(83,385)</u> | <u>752</u> | <u>(82,633)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 78,390 | 223 | 78,613 |
| Total other financing sources | <u>78,390</u> | <u>223</u> | <u>78,613</u> |
| CHANGE IN NET POSITION | <u>79,574</u> | <u>5,175</u> | <u>84,749</u> |
| NET POSITION - BEGINNING OF YEAR | <u>1,541,470</u> | <u>798,864</u> | <u>2,340,334</u> |
| NET POSITION - END OF YEAR | <u>\$ 1,621,044</u> | <u>\$ 804,039</u> | <u>\$ 2,425,083</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, 2023

| | <u>Water & Sewer</u> | <u>Fire</u> | <u>Total</u> |
|---|--------------------------|-------------------|--------------------|
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 1,746,295 | \$ 198,579 | \$ 1,944,874 |
| Cash payments to employees | (230,017) | (26,339) | (256,356) |
| Cash payments for supplies | <u>(1,188,982)</u> | <u>(127,390)</u> | <u>(1,316,372)</u> |
| Net cash provided by operating activities | <u>327,296</u> | <u>44,850</u> | <u>372,146</u> |
| Cash flows from investing activities: | | | |
| Change in restricted cash | 2,164 | (4,005) | (1,841) |
| Other non operating revenue | 50,364 | 591 | 50,955 |
| Interest received | 12,520 | 161 | 12,681 |
| Transfers from other funds | <u>78,390</u> | <u>223</u> | <u>78,613</u> |
| Net cash provided (used) by investing activities | <u>143,438</u> | <u>(3,030)</u> | <u>140,408</u> |
| Cash flows from capital and related financing activities: | | | |
| Purchases of capital assets | (135,515) | (283,975) | (419,490) |
| Principal payments on long-term debt | (207,909) | - | (207,909) |
| Bond fees on long-term debt | (6,338) | - | (6,338) |
| Interest payments on long-term debt | <u>(133,674)</u> | <u>-</u> | <u>(133,674)</u> |
| Net cash used by financing activities | <u>(483,436)</u> | <u>(283,975)</u> | <u>(767,411)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (12,702) | (242,155) | (254,857) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | <u>230,955</u> | <u>473,881</u> | <u>704,836</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 218,253</u> | <u>\$ 231,726</u> | <u>\$ 449,979</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating Income | \$ 84,569 | \$ 4,200 | \$ 88,769 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 265,292 | 36,074 | 301,366 |
| Provision for loss from embezzlement | (8,680) | - | (8,680) |
| (Increase) Decrease in: | | | |
| Accounts receivable | (23,672) | (202) | (23,874) |
| Prepaid expenses | 5,000 | - | 5,000 |
| Increase (Decrease) in: | | | |
| Accounts payable | <u>4,787</u> | <u>4,778</u> | <u>9,565</u> |
| | <u>242,727</u> | <u>40,650</u> | <u>283,377</u> |
| Net cash provided by operating activities | <u>\$ 327,296</u> | <u>\$ 44,850</u> | <u>\$ 372,146</u> |

The accompanying notes are an integral part of these statements.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 position, 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 position. 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.

Leases

The Departments calculate operating leases using the implicit interest rate, or their incremental borrowing rate if the lease rate is not determinable. All lease and non-lease components are combined for all leases. Lease payments for leases with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

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, 2023

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, 2023 management had determined that minimal accounts needed to be written off. Bad debt expense for the year ended December 31, 2023 was \$0.

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 Departments. 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, 2023

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, 2023.

Restricted cash held for specific purposes are as follows:

| | | |
|-----------------------|----|-----------------------|
| Debt Service Reserves | \$ | 155,525 |
| Bond Fund | | 164,690 |
| Act 833 | | <u>33,335</u> |
| Total Restricted Cash | \$ | <u><u>353,550</u></u> |

NOTE 3 – PUBLIC DEPARTMENTS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds 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, 2023 was as follows:

| <u>Description</u> | <u>Balance at</u> <u>December 31, 2022</u> | <u>Additions</u> | <u>Disposals/</u> <u>Transfers</u> | <u>Balance at</u> <u>December 31, 2023</u> |
|--------------------------|---|--------------------------|---------------------------------------|---|
| Land | \$ 36,218 | \$ - | \$ - | \$ 36,218 |
| Land, Wetlands Project | 56,541 | - | - | 56,541 |
| Building | 108,122 | - | - | 108,122 |
| Equipment | 1,074,357 | 41,667 | - | 1,116,024 |
| Fire Department | 12,408 | - | - | 12,408 |
| Improvements | 143,813 | - | - | 143,813 |
| Office Furniture | 13,876 | - | - | 13,876 |
| Truck & Equipment | 521,701 | - | - | 521,701 |
| Water & Sewer Facilities | 8,369,983 | 135,515 | - | 8,505,498 |
| Construction in Progress | <u>120,015</u> | <u>242,308</u> | <u>-</u> | <u>362,323</u> |
| Total Capital Assets | 10,457,034 | 419,490 | - | 10,876,524 |
| Accumulated Depreciation | <u>(5,281,283)</u> | <u>(301,366)</u> | <u>-</u> | <u>(5,582,649)</u> |
| Net Capital Assets | \$ <u><u>5,175,751</u></u> | \$ <u><u>118,124</u></u> | \$ <u><u>-</u></u> | \$ <u><u>5,293,875</u></u> |

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

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. Beginning July 1, 2022, the contribution rates shall be increased in increments of .25% per fiscal year, not to exceed 7%. The contributory rate was increased to 5.50% as of July 1, 2023. 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 \$51,121 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.

NOTE 6 - LONG-TERM DEBT:

Long-term debt at December 31, 2023 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) | \$ 3,665,000 |
| 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) | 44,551 |
| Total Long Term Debt | <u>3,709,551</u> |
| Less Current Portion | <u>(192,500)</u> |
| Long-Term Portion | <u>\$ 3,517,051</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.

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE 6 - LONG-TERM DEBT, continued:

Future debt service payments are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|---------------------|---------------------|---------------------|
| 2024 | \$ 192,500 | \$ 109,350 | \$ 301,850 |
| 2025 | 202,900 | 103,700 | 306,600 |
| 2026 | 204,151 | 106,899 | 311,050 |
| 2027 | 195,000 | 110,200 | 305,200 |
| 2028 | 200,000 | 103,863 | 303,863 |
| 2029-2033 | 1,115,000 | 415,402 | 1,530,402 |
| 2034-2038 | 1,310,000 | 204,514 | 1,514,514 |
| 2039 | 290,000 | 10,875 | 300,875 |
| | <u>\$ 3,709,551</u> | <u>\$ 1,164,803</u> | <u>\$ 4,874,354</u> |

Long-term liability activity for the year ended December 31, 2023 is as follows:

| | <u>Balance</u> | | <u>Additions</u> | | <u>Retirements</u> | <u>Balance</u> | <u>Due Within</u> |
|---------------|---------------------|-------------|---------------------|---------------------|--------------------|-------------------|-------------------|
| | <u>12/31/2022</u> | | | | | <u>12/31/2023</u> | <u>One Year</u> |
| Revenue Bonds | \$ 3,840,000 | \$ - | \$ (175,000) | \$ 3,665,000 | \$ 175,000 | | |
| Loans | 77,460 | - | (32,909) | 44,551 | 17,500 | | |
| | <u>\$ 3,917,460</u> | <u>\$ -</u> | <u>\$ (207,909)</u> | <u>\$ 3,709,551</u> | <u>\$ 192,500</u> | | |

The Departments have pledged future customer revenues, net of specified operating expenses, to repay \$3,709,551 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, 2023 were \$207,909 and \$133,674 respectively.

NOTE 7 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated through June 10, 2025, which is the date the financial statements were available to be issued. As of June 10, 2025, former employee Rebecca Horne has been charged and arrested for theft and forgery by the Shannon Hills Police Department. The investigation is still ongoing, and the case has yet to be fully resolved.

NOTE 8 – EMBEZZLEMENT AND MISSAPPROPRIATION OF FUNDS

Prior to the audit, employees discovered that there was misappropriation of water department funds. The embezzlement was verified and identified through routine audit procedures and involved the unauthorized transfer of funds to a former employee of the Departments.

The misappropriation resulted in an overstatement of expenses by \$8,680 as of the reporting date. Adjustments have been made to the financial statements to reclassify this misstatement.

In response to the discovery, management is in the process of implementing enhanced internal controls, including stricter access controls and regular reconciliations of cash accounts.

We recommend that management continue to review and strengthen internal controls to prevent future occurrences of fraud. Additionally, regular training on ethical standards and fraud awareness should be provided to all employees.

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, 2023, and the related notes to the financial statements, which collectively comprise the Departments' financial statements and have issued our report thereon dated June 10, 2025.

Report on 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.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2023-003 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 consider the deficiencies described in the accompanying schedule of findings as items 2023-001 and 2023-002 to be significant deficiencies.

Report on 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying list of findings as items 2023-004 and 2023-005.

11225 Huron Lane, Suite 212 • Little Rock, AR 72211 • 501-227-9044 • Fax 501-227-8791 •

jtberry@berrypresscpa.com

2911 Turtle Creek Blvd., Suite 300 • Dallas, TX 75219 • 972-437-2919

PO Box 2485 • Madison, MS 39130 • 601-383-0119

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

Departments' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Departments' response to the findings identified in our audit and described in the accompanying schedule of findings. The Departments' responses were not subjected to the other 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 10, 2025

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2023

2023-001 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, posting payments to subsidiary accounts receivable ledger, and posting to the general ledger. This finding was also noted in 2022.

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 concur 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.

2023-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2023 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 2022.

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 record all transactions and appropriately maintains all accounting records in a timely manner.

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

SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
SCHEDULE OF FINDINGS AND RESPONSES, continued
December 31, 2023

2023-003 Internal Control – Lack of Adequate Internal Controls Over Cash and Check Handling

Criteria: Effective internal control systems require segregation of duties to prevent and detect errors or fraud. This involves separating responsibilities for authorizing transactions, recording transactions, and maintaining custody of assets. This also includes having multiple signatories as well as oversight over checks being written and reviewing the bank reconciliations.

Condition: During the audit, it was discovered that the office manager had misappropriated funds by submitting false invoices and had written checks to themselves using a signature stamp found in the office. It was noted that the entity lacks adequate internal controls over cash and check handling processes. Specifically, there is no segregation of duties between the individuals responsible for writing checks, recording transactions, and reconciling accounts. We also noted that a stamp for signatures was being misused in the office and that the bank accounts were not being reconciled in a timely manner nor reviewed by management or the governing body.

Cause: The entity has not implemented sufficient internal control procedures as staffing limitations allow.

Effect or Potential Effect: The lack of segregation of duties caused, and increased the risk of misappropriation of funds and undetected errors, which led to financial losses and potential material misstatements in the financial statements.

Recommendation: We recommend implementing a system of checks and balances by segregating duties among different personnel. Consider cross-training staff to ensure that no single individual has control over all aspects of cash handling. Remove or lock up any stamps for signatures that could be abused by employees or elected officials. Have a governing official review bank reconciliations, and note the review on a monthly basis.

View Of Responsible Officials: Management acknowledges the finding and is in the process of reviewing current procedures. A corrective action plan will be developed to address the identified weaknesses and improve internal controls over cash handling.

2023-004 Compliance – IRS Form 1099-NEC

Criteria: IRS Form 1099-NEC should be prepared and filed in a timely manner.

Condition: IRS Form 1099-NEC were not prepared and filed for the year ended December 31, 2023.

Cause: The Departments' limited size and staffing resources have made it difficult for management to provide sufficient oversight to properly supervise this necessary function.

Effect or Potential Effect: Failure to remit required forms in a timely manner will result in penalty.

Recommendation: We recommend that the forms be filed annually in a timely manner.

Responsible Official's Response: The Departments concur with the recommendation.

2023-005 Compliance – Not Using Prenumbered Receipts

Criteria: Arkansas Code § 14-59-109 requires municipalities to formally receipt all funds at the time of collection or the earliest opportunity by the use of prenumbered receipts or mechanical receipting devices.

Condition: The Departments do not use prenumbered receipts for funds received.

Cause: The Departments did not give or keep receipted copies of transactions for funds received during the year.

Effect or Potential Effect: Failure to keep records for receipts can lead to misuse of funds and deposits not reflecting the amounts received by the Departments.

Recommendation: We recommend that prenumbered receipts be given and a copy filed away. These receipt numbers should be included in the deposit reports and be reflective of the deposits shown on the bank statement.

Responsible Official's Response: The Departments concur with the recommendation.

**SHANNON HILLS WATER, SEWER, AND FIRE DEPARTMENTS
SUPPLEMENTARY INFORMATION
December 31, 2023**

THE CITY COUNCIL:

| <u>NAMES</u> | <u>TITLE</u> |
|---|--------------|
| Mike Kemp | Mayor |
| Robin Baker <i>(replaced by Kim Hamby January 2025)</i> | Recorder |
| Mary Meyers | Treasurer |
| Toni Blackwell | Alderman |
| Chris Smith | Alderman |
| Keith Andrews | Alderman |
| Jill Hatcher <i>(replaced by Mendy Barnes January 2025)</i> | 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 | \$ 20.00 |
| Remaining | \$ | \$ 24.00 |
| | 20.00 | 5.20 |
| | 6.03 | |
| | <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.