

**CITY OF HIGHFILL
WATER AND SEWER DEPARTMENT
Highfill, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF HIGHFILL
WATER AND SEWER DEPARTMENT
Highfill, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2022 and 2021

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**Honorable Chris Holland, Mayor
Highfill City Council
Highfill, Arkansas**

INDEPENDENT AUDITOR'S REPORT

Opinions

We have audited the accompanying financial statements of the City of Highfill Water and Sewer Department, as of and for the years ended December 31, 2022 and 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 City of Highfill Water and Sewer Department as of December 31, 2022 and 2021, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 City of Highfill 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 1, the financial statements present only the Water and Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Highfill, Arkansas, as of December 31, 2022 and 2021, and the changes in its financial position, or, where applicable, its cash flows for the years 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 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 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 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

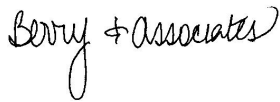
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highfill Water and Sewer Department's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2023 on our consideration of the City of Highfill 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 City of Highfill Water and Sewer Department's internal control over financial reporting and compliance.



BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
May 11, 2023

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2022 and 2021**

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 79,553	\$ 379,182
Accounts receivable	140,504	123,291
Total current assets	<u>220,057</u>	<u>502,473</u>
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	1,202,219	687,072
Meter deposits held in trust	-	165,551
Capital assets, net of accumulated depreciation	<u>6,804,925</u>	<u>6,967,083</u>
TOTAL ASSETS	<u>\$ 8,227,201</u>	<u>\$ 8,322,179</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 460,000	\$ 260,000
Accounts payable	56,290	44,880
Accrued interest payable	50,377	45,263
Short-term debt	-	5,974
Sales tax payable	7,342	5,858
Total current liabilities	<u>574,009</u>	<u>361,975</u>
LONG-TERM DEBT, net of current maturities	<u>6,720,000</u>	<u>7,180,000</u>
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	<u>140,130</u>	<u>155,848</u>
TOTAL LIABILITIES	<u>7,434,139</u>	<u>7,697,823</u>
NET POSITION		
Net investment in capital assets (deficit)	(375,075)	(1,044,583)
Temporarily restricted	425,808	489,714
Unrestricted	<u>742,329</u>	<u>1,179,225</u>
TOTAL NET POSITION	<u>793,062</u>	<u>624,356</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,227,201</u>	<u>\$ 8,322,179</u>

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

CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water revenue	\$ 1,037,151	\$ 779,984
Sewer revenue	353,541	260,105
Connection and special service fees	142,374	149,824
Garbage fees	169,284	137,579
Other income	9,821	49,440
Total operating revenues	<u>1,712,171</u>	<u>1,376,932</u>
OPERATING EXPENSES		
Water:		
Water purchased	380,290	272,375
Repairs and maintenance	116,835	43,938
Water tank maintenance	11,297	11,150
Professional fees	61,427	25,476
Dues and fees	58,771	7,868
Salaries	187,180	27,899
Supplies	55,200	17,792
Office expense	10,624	20,720
Depreciation and amortization	266,982	255,320
Utilities	29,714	26,505
Auto expense	21,925	8,964
Sanitation paid	154,183	121,298
Contract maintenance and billing	-	240,029
Insurance	25,500	4,597
Waste water disposal	218,434	-
Miscellaneous	4,094	34,950
Total water expenses	<u>1,602,456</u>	<u>1,118,881</u>
Sewer:		
Repairs and maintenance	<u>57,504</u>	<u>34,595</u>
Total operating expenses	<u>1,659,960</u>	<u>1,153,476</u>
OPERATING INCOME	<u>\$ 52,211</u>	<u>\$ 223,456</u>

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

CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, Continued
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	\$ 8,657	\$ 1,219
Interest expense	(196,920)	(260,417)
Loss on disposal of capital assets	-	(496)
Bond premium	-	(34,243)
Bond issuance costs	-	(7,420)
Net non-operating expenses	<u>(188,263)</u>	<u>(301,357)</u>
OTHER FINANCING SOURCES		
Transfers in	<u>304,758</u>	<u>4,535</u>
CHANGE IN NET POSITION	168,706	(73,366)
NET POSITION - BEGINNING OF YEAR,	<u>624,356</u>	<u>697,722</u>
NET POSITION - END OF YEAR	<u><u>\$ 793,062</u></u>	<u><u>\$ 624,356</u></u>

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

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Cash received from customers	\$ 1,694,958	\$ 1,362,361
Cash payments to employees	(187,180)	-
Cash payments for supplies	(1,033,327)	(1,023,963)
Net cash provided by operating activities	<u>474,451</u>	<u>338,398</u>
Cash flows from investing activities:		
Change in restricted cash	(515,147)	261,099
Increase (decrease) in meter deposits	(15,718)	155,848
Interest received	8,657	1,219
Transfers from other funds	304,758	4,535
Net cash provided (used) by investing activities	<u>(217,450)</u>	<u>422,701</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	(104,824)	(31,650)
Principal payments on long-term debt	(260,000)	(3,595,000)
Bond issuance costs on long-term debt proceeds	-	(7,420)
Bond issuance premium	-	(34,243)
Proceeds from long-term debt, net of bond discount	-	3,085,000
Interest payments on long-term debt	(191,806)	(280,972)
Net cash used by financing activities	<u>(556,630)</u>	<u>(864,285)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(299,629)</u>	<u>(103,186)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>379,182</u>	<u>482,368</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 79,553</u>	<u>\$ 379,182</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 52,211	\$ 223,456
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	266,982	255,320
Provision for loss on disposal of capital assets	-	496
(Increase) Decrease in:		
Accounts receivable	(17,213)	(14,571)
Meter deposits held in trust	165,551	(165,247)
Increase (Decrease) in:		
Accounts payable	11,410	32,578
Due to other funds	(5,974)	5,974
Other current liabilities	1,484	392
	<u>422,240</u>	<u>114,942</u>
Net cash provided by operating activities	<u>\$ 474,451</u>	<u>\$ 338,398</u>

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

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Date of Management's Review

Subsequent events have been evaluated through May 11, 2023, which is the date the financial statements were available to be issued.

Reporting Entity

The City of Highfill Water and Sewer Department is an enterprise fund of the City of Highfill, Arkansas. The enterprise fund accounts for its activities similar to a private business. Operational activities of the Water and Sewer Department include the administration, operation and maintenance of the water system and billing collection activities. All costs are financed through charges to customers. Pursuant to Ark. Code Ann. § 14-37-107, Highfill changed from a Town to a City of the Second Class, during 2012.

Basis of Presentation and Accounting

The accounts of the Water and Sewer Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Water and Sewer 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 and Sewer Department is determined by its measurement focus. The transactions of the Water and Sewer Department 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 and Sewer Department has 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 and Sewer Department considers 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 and Sewer Department 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.

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 System	5-40 years

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't):

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 and Sewer Department. 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 and Sewer Department's 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 Department has 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, 2022 and 2021 management had determined that minimal accounts needed to be written off. Bad debt expense for the years ended December 31, 2022 and 2021 was \$0.

Restricted Assets

Certain proceeds of the Department's 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. Customer deposits held by the Department are also considered restricted.

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 Department 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.

Adoption of GASB 87

Effective January 1, 2022, the Department adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Department's results of operations or cash flows.

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 2 - LONG-TERM DEBT:

	<u>2022</u>	<u>2021</u>
Series 2018 Refunding & Improvement Bond, payable to Farmers & Merchants Bank, due in monthly installments of \$31,060, including interest at a variable rate, beginning June 2018 through April 2037 (1)	\$ 4,175,000	\$ 4,355,000
Series 2021 Refunding & Improvement Bond, payable to Farmers & Merchants Bank, due in monthly installments of \$27,800, including interest at a variable rate, beginning February 2022 through April 2036 (2)	<u>3,005,000</u>	<u>3,085,000</u>
	7,180,000	7,440,000
Less Current Portion	<u>(460,000)</u>	<u>(260,000)</u>
Total Long-Term Portion	<u>\$ 6,720,000</u>	<u>\$ 7,180,000</u>

- (1) The revenue bond has a restrictive covenant to maintain a debt service reserve in the amount of \$221,338.
- (2) The revenue bond has a restrictive covenant to maintain a debt service reserve in the amount of \$167,306 and a depreciation reserve accumulated at a rate of 3% of the gross revenues while the bond is still outstanding.

The annual maturities of long-term debt payable at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 460,000	\$ 202,063	\$ 662,063
2024	470,000	191,198	661,198
2025	475,000	183,588	658,588
2026	490,000	172,188	662,188
2027	490,000	160,388	650,388
2028-2032	2,490,000	606,415	3,096,415
2033-2037	<u>2,305,000</u>	<u>226,176</u>	<u>2,531,176</u>
	<u>\$ 7,180,000</u>	<u>\$ 1,742,016</u>	<u>\$ 8,922,016</u>

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 2 - LONG-TERM DEBT (cont'd):

Long-term liability activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance 12/31/21	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Revenue Bonds	\$ 7,440,000	\$ -	\$ (260,000)	\$ 7,180,000	\$ 460,000

	Balance 12/31/20	Additions	Retirements	Balance 12/31/21	Due Within One Year
Long Term Debt					
Revenue Bonds	\$ 7,950,000	\$ 3,085,000	\$ (3,595,000)	\$ 7,440,000	\$ 260,000

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$7,180,000 in long-term debt. Proceeds from the bonds were used for building of the Department's water and sewer systems. Principal and interest on the bonds are payable through 2037, solely from the water and sewer customer net revenues. Principal and interest paid in the year ended December 31, 2022 were \$260,000 and \$191,806, respectively. Principal and interest paid in the year ended December 31, 2021 were \$3,595,000 and \$280,972, respectively.

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 and Sewer Department's name.

NOTE 4 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2022 and 2021 is as follows:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022
Water System	\$ 4,692,720	\$ 59,700	\$ -	\$ 4,752,420
Sewer System	5,090,564	-	-	5,090,564
Vehicles	41,313	45,124	-	86,437
Land	1,015,818	-	-	1,015,818
	10,840,415	\$ 104,824	\$ -	10,945,239
Less: Accumulated Depreciation	(3,873,332)			(4,140,314)
Total Capital Assets	\$ 6,967,083			\$ 6,804,925

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 4 – CAPITAL ASSETS, (Con't):

	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Water System	\$ 4,668,687	\$ 31,650	\$ (7,617)	\$ 4,692,720
Sewer System	5,090,564	-	-	5,090,564
Vehicles	55,238	-	(13,925)	41,313
Land	1,015,818	-	-	1,015,818
	<u>10,830,307</u>	<u>\$ 31,650</u>	<u>\$ (21,542)</u>	<u>10,840,415</u>
Less: Accumulated Depreciation	<u>(3,639,057)</u>			<u>(3,873,332)</u>
Total Capital Assets	<u>\$ 7,191,250</u>			<u>\$ 6,967,083</u>

NOTE 5– RESTRICTED CASH:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for debt service reserves (see Note 2).

The following is a list of the restricted cash at December 31:

	2022	2021
Debt Service Reserves	\$ 635,585	\$ 489,743
Bond Fund	400,408	176,462
Customer Meter Deposits	166,226	20,867
	<u>\$ 1,202,219</u>	<u>\$ 687,072</u>

NOTE 6 – SOURCES AND USES OF FUNDS:

In September 2021, the Department refunded the Water and Sewer Refunding Revenue Bonds, Series 2015 of \$3,203,381 with new debt of \$3,085,000 issued by the Water and Sewer Refunding Bonds, Series 2021.

The sources and uses of funds required for the transaction are shown below.

<u>Sources</u>	
Principal Amount of Series 2021 Bonds	\$ 3,085,000
Net Original Issue Premium	27,457
Funds from Bonds Refunded	357,823
	<u>\$ 3,470,280</u>
<u>Uses</u>	
Refunding Costs	\$ 3,203,381
Debt Service Reserve	167,306
Costs of Issuance	37,893
Underwriter's Discount	61,700
	<u>\$ 3,470,280</u>

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 7 – COMMITMENTS:

The Department has a contract with Utility Service Co., Inc., to provide the professional service needed to maintain the water storage tanks. Payments are made to Utility Service Co., Inc. monthly for an indefinite period of time. Contract payments amounted to \$11,297 for the year ended December 31, 2022.

The contract was dated October 13, 2015, commencing with the first payment due November 1, 2016. The tank shall receive an exterior renovation, interior renovation, and repairs prior to the end of Contract Year 1. The first three annual fees shall be \$40,446 per Contract Year. The annual fee for Contract Year 4 and each subsequent annual fee shall be \$11,150 per Contract Year; however, in Contract Year 7 and each third anniversary thereafter, the annual fee shall be adjusted to reflect the current cost of service.

NOTE 8 – METER DEPOSITS HELD IN TRUST:

In May 2020 the Department entered a contract with Centerton Waterworks and Sewer Commission to manage and run the billing and maintenance of the water system. As part of this agreement Highfill transferred control of meter deposit funds in the amount of \$91,725. As of December 31, 2021 Highfill no longer contracts with Centerton for the management of its water system and Centerton refunded \$165,551 of meter deposit monies to Highfill in January of 2022.

NOTE 9 – EMPLOYEE BENEFITS:

Plan Description. The City of Highfill contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. 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, or on their website www.apers.org.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5.25% 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, 2022 and 2021 were \$22,214 and \$0, respectively, equal to the required contributions for the year.

Implementation of GASB 68

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective with fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, 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.

SUPPLEMENTARY INFORMATION



**Honorable Chris Holland, Mayor
Highfill City Council
Highfill, 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 Water and Sewer Department of the City of Highfill, Arkansas, (the "Department") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated May 11, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Highfill Water and Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

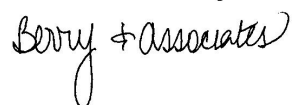
Honorable Chris Holland, Mayor
Highfill City Council
Highfill, Arkansas
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Department's Response to Findings

The Water and Sewer Department of the City of Highfill, Arkansas, responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's 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 Department'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
May 11, 2023

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2022**

2022-001 Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping of 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 who is responsible for posting to the general ledger also reconciles the bank statements. This finding was also noted in 2021.

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

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 board should consider a formal evaluation of their risks associated with this lack of duty segregation over utility 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 department might consider having the mayor receive and open the bank statements before they are reconciled and follow with subsequent review of reconciliations.

View Of Responsible Officials: The Department concurs with the recommendation; the Department has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as applicable.

2022-002 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2022 the Department's 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 2021.

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

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Department's 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 Department properly records all transactions and appropriately maintains all accounting records in a timely manner.

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

**CITY OF HIGHFILL, ARKANSAS
WATER AND SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION
December 31, 2022**

INSURANCE SCHEDULE:

<u>POLICY NO. PREMIUM</u>	<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
PNC546PPR	Arkansas Municipal League	Property	\$ 1,454,229
PNC546VPR	Arkansas Municipal League	Vehicle	\$ 237,664
FBF11	Arkansas Fidelity Bond Trust Department Employee Dishonesty		\$ 250,000

THE CITY COUNCIL:

<u>NAMES</u>	<u>TITLE</u>
Michelle Rieff*	Mayor
Eleni Parsons	Recorder/Treasurer
Toby Lester	Alderman
Chris Holland*	Alderman
Jayme Thompson	Alderman
Jack Loyd	Alderman
Justin Allen	Alderman
Jeremy Rodgers*	Alderman
Jay Williams	City Attorney

*Council members were replaced by Jessica Wilmoth and Jeremy Rodgers in 2023. Mayor Michelle Rieff was replaced by Mayor Chris Holland in 2023.

WATER RATE SCHEDULE:

Meter/Customer Charge	Water Rates (Flat per 1,000 gallons)
5/8" X 3/4" Meter = \$27.00 minimum	Residential = \$5.67
1" Meter = \$37.00 minimum	Commercial = \$3.73
1.5" Meter = \$47.00 minimum	Industrial/Wholesale = \$3.27
2" Meter = \$74.50 minimum	
3" Meter = \$277.00 minimum	Sewer Rates (Flat per 1,000 gallons)
4" Meter = \$352.00 minimum	All Categories = \$9.28
5" Meter = \$527.00 minimum	
6" Meter = \$727.00 minimum	

ACCOUNTING:

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