

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

Financial Statements  
December 31, 2014 and 2013

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

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**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

As management of the Water and Sewer Fund of the City of Harrison, Arkansas (the Utility), we offer readers of the City of Harrison, Arkansas's (the City) financial statements this overview and analysis of the financial activities of the Utility for the years ended December 31, 2014 and 2013. The Utility is a fund of the City and is accounted for separately as an enterprise fund.

Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful for sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

The Utility provides water, sewer and sanitation services to residential, commercial and industrial customers in and around Harrison, Arkansas.

**Overview of the Financial Statements**

This annual report includes this Management's Discussion and Analysis report, the Basic Financial Statements and the Notes to Financial Statements.

The financial statements of the Utility report information of the Utility using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about the Utility's activities. The Statements of Net Position includes all the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to the Utility's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the Utility's operations over the past year and can be used to determine whether the Utility has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Financial Highlights**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Assets	\$ 22,745,146	\$ 22,915,596	\$ 20,889,079	\$ 19,624,426
Net Capital Assets	17,281,866	17,375,184	15,927,085	15,195,295
Total Liabilities	858,190	892,651	921,698	803,763
Net Position Invested in Capital Assets	17,281,866	17,375,184	15,927,085	15,195,295
Unrestricted Net Position	4,605,090	4,647,761	4,040,296	3,625,368
Total Net Position	21,886,956	22,022,945	19,967,381	18,820,663
Total Operating Revenues	6,249,979	6,793,895	5,755,989	5,710,683
Total Operating Expenses	6,969,540	6,827,908	5,931,390	5,752,804
Total Other Revenues	583,572	2,089,576	1,322,119	803,285
Increase (Decrease) in Net Position	(135,989)	2,055,563	1,146,718	761,164

**Total Assets** - Total assets decreased approximately \$170,450 from December 31, 2013 to 2014. This decrease was due primarily to decreases in accounts receivable.

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

Management's Discussion and Analysis (MD&A)

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**Net Capital Assets** - Net capital assets decreased approximately \$93,000 from December 31, 2013 to 2014. This decrease was due to capital improvements of \$615,000, which were off-set by an increase in accumulated depreciation of \$708,000.

**Total Liabilities** - Total liabilities decreased approximately \$35,000 from December 31, 2013 to 2014, due to decreases in accounts payable and accrued liabilities of \$72,000, which were off-set by an increase in accrued compensated absences and meter deposits of \$37,000.

**Total Net Position** - Total net position decreased approximately \$136,000 from December 31, 2013 to 2014, due to an operating loss (\$720,000) offset by income from sales tax revenue (\$543,000) and interest income (\$41,000).

**Total Operating Revenues** - Total operating revenues decreased approximately \$544,000 from December 31, 2013 to 2014. This decrease was primarily due to decreases in water and sanitation revenues, and other operating income.

**Total Operating Expenses** - Total operating expenses increased approximately \$142,000 from December 31, 2013 to 2014 due primarily to increases in sanitation contracted services of \$22,000, depreciation of \$61,000, and administrative and other expenses of \$131,000, which were offset by decreases in water purchases of \$72,000.

**Total Other Income (Expense)** - Total other income (expense) decreased approximately \$1,500,000 from December 31, 2013 to 2014 due primarily to a decrease in infrastructure projects funded by the tax revenue of a 1/2 cent sales tax. The amount received each year is dependent upon the infrastructure projects scheduled for that year.

### **Contacting the Utility's Financial Management**

The Utility's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the Utility's finances and to demonstrate the Utility's accountability. If you have questions about the report or need additional financial information, please contact Luke Feighert, Finance Director, at 114 S. Spring, Harrison, Arkansas 72602.



## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Water and Sewer Fund (the Utility), of City of Harrison, Arkansas, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water and Sewer Fund of City of Harrison, Arkansas, as of December 31, 2014 and 2013, and the 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.

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

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### **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Water and Sewer Fund and do not purport to, and do not present fairly the financial position of the City of Harrison, Arkansas, as of December 31, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 1 and 2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole that comprise the Water and Sewer Fund of the City of Harrison, Arkansas' basic financial statements. The additional information on page 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016 on our consideration of the Utility'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 Utility's internal control over financial reporting and compliance.



**Porterfield & Company CPA, PLLC**

Harrison, Arkansas  
January 14, 2016

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
STATEMENTS OF NET POSITION  
AS OF DECEMBER 31, 2014 AND 2013**

<b>ASSETS</b>		
	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 4,085,705	\$ 4,087,317
Accounts Receivable, less allowance for doubtful accounts of \$165,000 and \$159,000 in 2014 and 2013	784,747	838,364
Accounts Receivable - Inter-fund	14,579	43,712
Inventory	190,426	195,115
Prepaid Expenses	12,381	18,027
<b>Total Current Assets</b>	<u>5,087,838</u>	<u>5,182,535</u>
<b>Restricted Assets</b>		
Meter Deposits	375,442	357,877
<b>Net Restricted Assets</b>	<u>375,442</u>	<u>357,877</u>
<b>Property, Plant and Equipment, at Cost</b>		
Land	13,085	13,085
Property, Plant and Equipment, at Cost	31,534,319	30,919,409
Accumulated Depreciation	(14,265,538)	(13,557,310)
<b>Net Property, Plant and Equipment</b>	<u>17,281,866</u>	<u>17,375,184</u>
<b>Total Assets</b>	<u>\$ 22,745,146</u>	<u>\$ 22,915,596</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts Payable - Trade	\$ 298,921	\$ 310,424
Accounts Payable - Inter-fund	13,972	57,180
Accrued Liabilities	24,630	42,495
Accrued Compensated Absences - Current Portion	57,431	56,517
<b>Total Current Liabilities</b>	<u>394,954</u>	<u>466,616</u>
<b>Liabilities Payable from Restricted Assets</b>		
Meter Deposits	375,442	357,877
<b>Total Liabilities Payable from Restricted Assets</b>	<u>375,442</u>	<u>357,877</u>
<b>Long-term Liabilities</b>		
Accrued Compensated Absences - Long-term Portion	87,794	68,158
<b>Total Long-term Liabilities</b>	<u>87,794</u>	<u>68,158</u>
<b>Total Liabilities</b>	<u>858,190</u>	<u>892,651</u>
<b>Net Position</b>		
Invested in Capital Assets	17,281,866	17,375,184
Unrestricted	4,605,090	4,647,761
<b>Total Net Position</b>	<u>21,886,956</u>	<u>22,022,945</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 22,745,146</u>	<u>\$ 22,915,596</u>

See Notes to Financial Statements.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Water	\$ 2,813,852	\$ 3,028,942
Sewer	1,632,274	1,767,855
Sanitation	1,767,730	1,760,381
Other Operating Income	36,123	236,717
<b>Total Operating Revenues</b>	<u>6,249,979</u>	<u>6,793,895</u>
<b>Operating Expenses</b>		
Water Purchases	1,370,856	1,442,839
Sanitation Contracted Service	1,591,583	1,569,595
Administrative and Other Expenses	3,298,873	3,168,368
Depreciation	708,228	647,106
<b>Total Operating Expenses</b>	<u>6,969,540</u>	<u>6,827,908</u>
<b>Operating Income (Loss)</b>	<u>(719,561)</u>	<u>(34,013)</u>
<b>Other Income (Expense)</b>		
Infrastructure Sales Tax Revenue	543,019	2,052,978
Interest Income	40,553	36,598
<b>Total Other Income (Expense)</b>	<u>583,572</u>	<u>2,089,576</u>
<b>Increase (Decrease) in Net Position</b>	(135,989)	2,055,563
<b>Net Position, Beginning of Year</b>	<u>22,022,945</u>	<u>19,967,382</u>
<b>Net Position, End of Year</b>	<u>\$ 21,886,956</u>	<u>\$ 22,022,945</u>

See Notes to Financial Statements.



**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows from Operating Activities</b>		
Cash Received from:		
Customers	\$ 6,359,473	\$ 6,428,775
Other Operating Activities	36,123	236,717
Cash Paid for:		
Water	(1,370,856)	(1,442,839)
Sanitation Contracted Service	(1,634,791)	(1,596,817)
Salaries, Wages and Related Benefits	(1,116,701)	(1,112,884)
Administrative and Other Expenses	(2,272,655)	(2,182,224)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>593</b>	<b>330,728</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Infrastructure Sales Tax Revenue	572,152	2,111,264
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>572,152</b>	<b>2,111,264</b>
<b>Cash Flows from Capital Financing Activities</b>		
Purchases of Property, Plant and Equipment	(614,910)	(2,095,205)
<b>Net Cash Provided by (Used in) Capital Financing Activities</b>	<b>(614,910)</b>	<b>(2,095,205)</b>
<b>Cash Flows from Investing Activities</b>		
Transfers (to) from Meter Deposits Restricted Assets	(17,565)	(7,570)
Increase (Decrease) in Meter Deposits Liability	17,565	7,570
Interest Income	40,553	36,598
<b>Net Cash Provided by (Used in) Investing Activities</b>	<b>40,553</b>	<b>36,598</b>
<b>Net Increase (Decrease) in Cash and Equivalents</b>	<b>(1,612)</b>	<b>383,385</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,087,317</b>	<b>3,703,932</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,085,705</b>	<b>\$ 4,087,317</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating Income (Loss)	\$ (719,561)	\$ (34,013)
Depreciation	708,228	647,106
Changes in Assets and Liabilities:		
Accounts Receivable	53,617	(220,403)
Inventory	4,689	(7,318)
Prepaid Expenses	5,646	(18,027)
Accounts Payable	(11,503)	(15,343)
Accounts Payable - Due to Other Funds	(43,208)	(27,222)
Accrued Liabilities	2,685	5,948
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 593</b>	<b>\$ 330,728</b>

**Supplementary Information**

<b>Cash Paid for Interest</b>	<b>\$ -</b>	<b>\$ -</b>
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See Notes to Financial Statements.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

The Water and Sewer Fund of the City of Harrison, Arkansas (the Utility) is a component unit of the City of Harrison, Arkansas (the City). The Utility is primarily in the business of providing water, sewer and sanitation services to residential, commercial and industrial customers in and around Harrison, Arkansas.

**Reporting Entity**

For financial reporting purposes, in conformity with Governmental Accounting Standards Board (GASB), the Utility includes all funds over which the Utility's management exercises financial accountability.

**Fund Types**

The accounts of the Utility are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its Assets, Liabilities, Net Position, Revenues, and Expenditures.

The Utility's various funds are grouped in the financial statements as a single enterprise fund. Enterprise Funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues and expenses along with the related assets and liabilities are recorded in the period in which the transactions occur, regardless of when the related cash is received or disbursed.

**Budgets and Budgetary Accounting**

State law requires that the City Council, before the end of each fiscal year, make appropriations, by ordinance, for the expenditures of City government for the following year. The City Council may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to year-end.

The Utility prepared the annual budget using the regulatory basis of accounting.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Utility considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Investments**

The Utility maintains various cash and investment accounts. The Utility's investment policy states that the Utility will be limited to the purchase of certificates of deposit and Government securities including only direct U.S. Treasury obligations; treasury bills, notes and bonds. Certificates of deposit will be purchased directly from approved banks to enable management the opportunity to evaluate the financial condition of the specific bank.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. According to the Utility's investment policy, all investments are monitored for changes in the effective yield. At December 31, 2014 and 2013, all interest bearing accounts are short-term in nature.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Utility will not be able to recover the value of the investments or collateral securities that are in the possession of the outside party. The Utility has established a policy in which deposits and restricted assets are to be secured by collateral, reduced by the amount of insurance provided by the Federal Deposit Insurance Corporation (FDIC).

**Accounts Receivable**

Accounts receivable primarily consist of credit extended to users in the normal course of business. Customers are required to pay a meter deposit when service commences. At the time service is terminated, these deposits may be applied to any outstanding receivable from the customer. The Utility uses the allowance method to account for uncollectible accounts receivable. In circumstances where management is aware of a specific user's inability to meet financial obligations, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. In addition, the Utility has established a general reserve based upon historical customer performance. Management also performs ongoing credit evaluations of its accounts and those which are considered uncollectible are reserved for through the allowance account. The policy for determining when receivables are past due or delinquent is based on how recently payments have been received. Amounts are written off at the point when collection attempts have been exhausted. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Utility's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Utility.

**Inventory**

Inventory consists of various materials held for use to repair and maintain existing operations. Inventory is valued at average cost, which approximates the first-in, first-out method.

**Inter-Fund Receivables, Payables and Transfers**

Inter-fund receivables and payables result from lending and borrowing arrangements between the Utility and other funds of the City and are referred to as advances to and from other funds.

**Property, Plant and Equipment**

Property, Plant and Equipment is stated at historical cost. Contributed items are stated at estimated fair market value on the date of contribution. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. Assets with an initial value or cost greater than or equal to \$2,500 and an estimated useful life greater than one year are capitalized under the Utility's capitalization policy; capital expenditures not meeting this criteria are expensed as incurred. Significant betterments, which increase the useful lives of capital assets, are capitalized and depreciated over the remaining useful life.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

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

**Long-Lived Assets**

Impairment of capital assets is a significant and unexpected decline, which is based on triggering events or changes in circumstances that were not anticipated when the capital assets was placed in service. Based on management's assessment, no triggering events or changes in circumstances occurred during the years ended December 31, 2014 or 2013.

**Restricted Assets**

The Utility designated certain funds to be maintained for customer meter deposits. These deposits are held until the customer discontinues the Utility's services.

**Net Position Classifications**

Net Position is classified and presented as follows:

Net Position Invested in Capital Assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or by law through constitutional provision or enabling legislation.

Unrestricted Net Position consists of all other fund equity balances that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**Revenue Recognition**

The Utility recognizes revenue when earned, based upon customer usage or when the service is provided. Water, sewer and sanitation revenues are billed to the customers in monthly cycles.

**Classification of Revenues**

Operating revenues generally consist of charges for water, sewer and sanitation usage and other fees billed to customers. Non-operating revenues consist of interest income, sales tax and miscellaneous income.

**Advertising**

The Utility follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2014 and 2013 was \$0 and \$0, respectively.

**Restricted Resources**

Under the terms of grant agreements, the Utility funds certain infrastructure improvements by a combination of specific improvement-reimbursement grants and general revenues. Thus, when infrastructure improvements are incurred, there may be both restricted and unrestricted net position available to finance these improvements. It is the Utility's policy to first apply improvement-reimbursement grant resources to such improvements and then general revenues.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

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

**Compensated Absences**

The Utility has a policy whereby employees can accumulate unused sick and vacation leave and comp time. Sick leave is to be used for periods of illness and can be accrued up to 60 days if the employee has been employed longer than 5 years. Upon termination or retirement, the Utility will pay all accrued vacation days. The Utility has accrued the separation portion of this liability as accrued compensated absences, which totaled \$145,225 and \$124,675 at December 31, 2014 and 2013, respectively.

**Income Taxes**

Income of the Utility is derived from the exercise of essential governmental functions and accrues to the Utility, a component unit of the City of Harrison, Arkansas. It is, therefore, not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS**

Financial instruments that could potentially subject the Utility to a risk of accounting loss are carried at fair market value and include restricted and unrestricted Cash and Cash Equivalents and excludes petty cash as follows:

	Bank Balance	Carrying Balance
Insured (FDIC)	\$ -	\$ -
Collateralized by pledged securities	4,663,389	4,461,147
Other assets held in trust	-	-
Uninsured or Uncollateralized	-	-
Total	\$ 4,663,389	\$ 4,461,147

The Utility, a component unit of the City of Harrison, Arkansas, maintains cash and certificates of deposit in one commercial bank under the City's federal identification number. The total cash balance under the City's federal identification number is insured by the FDIC up to \$250,000. The City participates in a pledged collateral program whereby the bank pledges collateral for balances in excess of the FDIC limit. The Utility believes there is no significant risk with respect to these deposits.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Receivables at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Accounts Receivable – Trade	\$ 946,097	\$ 985,478
Less Allowance for Doubtful Accounts	(165,000)	(159,000)
Net Accounts Receivable – Trade	781,097	826,478
Accounts Receivable – Construction	3,650	11,886
Total Accounts Receivable	\$ 784,747	\$ 838,364

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 4 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of property, plant and equipment:

	Estimated Useful Life (in Years)	Balance 12/31/13	Additions	Disposals	Balance 12/31/14
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085
Water Plant	10 - 50	10,081,025	-	-	10,081,025
Sewer Plant	50	16,003,503	429,761	-	16,433,264
Machinery and Equipment	5 - 10	1,994,374	23,141	-	2,017,515
Transportation Equipment	5 - 10	1,284,242	48,750	-	1,332,992
Furniture, Fixtures and Office Equipment	5 - 15	316,082	-	-	316,082
Water Lines	50	<u>1,240,183</u>	<u>113,258</u>	-	<u>1,353,441</u>
Total Property, Plant and Equipment, at Cost		30,932,494	614,910	-	31,547,404
Less: Accumulated Depreciation		<u>(13,557,310)</u>	<u>(708,228)</u>	-	<u>(14,265,538)</u>
Net Property, Plant and Equipment		<u>\$ 17,375,184</u>	<u>\$ (93,318)</u>	<u>\$ -</u>	<u>\$ 17,281,866</u>

	Estimated Net Useful Life (in Years)	Balance 12/31/12	Additions	Disposals	Balance 12/31/13
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085
Water Plant	10 - 50	10,081,025	-	-	10,081,025
Sewer Plant	50	14,855,858	1,147,645	-	16,003,503
Machinery and Equipment	5 - 10	1,888,515	105,859	-	1,994,374
Transportation Equipment	5 - 10	965,859	313,383	-	1,284,242
Furniture, Fixtures and Office Equipment	5 - 15	316,082	-	-	316,082
Water Lines	50	<u>716,865</u>	<u>523,318</u>	-	<u>1,240,183</u>
Total Property, Plant and Equipment, at Cost		28,837,289	2,095,205	-	30,932,494
Less: Accumulated Depreciation		<u>(12,910,204)</u>	<u>(647,106)</u>	-	<u>(13,557,310)</u>
Net Property, Plant and Equipment		<u>\$ 15,927,085</u>	<u>\$ 1,448,099</u>	<u>\$ -</u>	<u>\$ 17,375,184</u>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$708,228 and \$647,106, respectively.

**NOTE 5 - ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM PLAN DESCRIPTION**

The City, which includes the Utility, contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this system. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and can be amended only by the Arkansas General Assembly. APERS issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to the Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol Ave., Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 5 - ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM PLAN DESCRIPTION,**  
*Continued*

**Funding Policy**

APERS has contributory and noncontributory plans. Contributory members are required to contribute 5% of their salary. Each participating employer is required to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 14.76% from July 1, 2014 and 14.88% from July 1, 2013 of annual covered payroll. The Utility's contributions to APERS were \$162,418 and \$160,890 for the years ending December 31, 2014 and 2013, respectively.

**NOTE 6 - RELATED PARTY TRANSACTIONS**

The Utility reimburses the City for its portion of expenses paid directly by the City's general fund. These reimbursements are paid monthly and consist of an accounting fee for administrative, billing and record keeping services, and a maintenance fee for repairs and upkeep of the water and sewer fund fixed assets, along with certain safety fees. During the years ended December 31, 2014 and 2013 the reimbursements were approximately \$382,000 and \$377,000, respectively.

**NOTE 7 - COMMITMENTS AND CONTINGENCIES**

Effective January 1, 1999, the Utility executed an agreement for the purchase of all water from the Carroll Boone Water District. This agreement may be amended by mutual agreement of the parties.

There are no significant minimum rental commitments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2014.

Effective January 1, 2013, the Utility executed a ten-year agreement for the collection and transfer of solid waste and recyclable materials with Inland Services. This agreement cannot be modified or amended unless approved by the governing bodies of both parties and signed by the authorized representatives of the City and the contractor.

At December 31, 2014 and 2013, there were no material outstanding unfilled contract commitments.

In the normal course of operations, the Utility receives grant funds from various federal and state agencies. The grant programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City believes any liability for reimbursement, which may arise as a result of audits of grant funds, would not be material.

During the process of renewing the Utility's permit to operate a waste water treatment plant, it was discovered that Crooked Creek, which the treatment plant releases into, has an impaired status and the EPA is requiring the ADEQ to establish a total max daily limit (TMDL) for any impaired bodies of water. The Utility attended a Joint Congressional Hearing which granted a delay on the ADEQ's requirement to complete a TMDL on the creek pending the Utility completing a Use Attainability Analysis to modify the water quality criteria. The Utility estimates the total cost to modify the water quality criteria to range from \$150,000 to \$300,000. If the Utility is unsuccessful in their effort to modify the water quality criteria of Crooked Creek, the Utility may be required to make significant improvements and/or additions to the current sewer treatment plant.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2014 AND 2013**

**NOTE 8 - RISK MANAGEMENT**

The Utility is exposed to various risks of loss from tort, theft of, damage to and destruction of assets, business interruption, errors and omissions, natural disasters, employee injuries and illnesses, and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental benefits and worker's compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Utility has joined with other municipalities to form the Arkansas Municipal League Vehicle Insurance Program (the Pool), a public entity risk pool currently operating as a common risk management and insurance program for its members. The Utility pays an annual premium to the Pool for its vehicle insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop loss amounts.

**NOTE 9 - WATER AND SEWER RATES**

In order to provide funding for system improvements, various water and sewer rates were established by ordinance in 2007. In February 2014, the rates were increased. The rates in effect for the years ended December 31, 2014 are as follows:

	<u>Water Rates</u>	<u>Sewer Rates</u>
First 1,500 gallons	\$10.13 minimum	\$7.98 minimum
Next 25,000 gallons	\$4.22 per 1,000 GA	\$4.75 per 1,000 GA
Next 250,000 gallons	\$3.80 per 1,000 GA	\$4.64 per 1,000 GA
Usage over 250,000 gallons	\$3.88 per 1,000 GA	\$4.71 per 1,000 GA

Billing rates for both "outside city" water and sewer rates are calculated at \$1.00 plus one hundred fifty percent (150%) of the above appropriate "inside city" rates.

**NOTE 10 - CONCENTRATIONS OF ECONOMIC AND CREDIT RISK**

The Utility's business activities are concentrated with customers located in and near the City of Harrison, Arkansas. All future revenue is associated within the above-mentioned geographic region.

The Utility purchases water from the Carroll Boone Water District. This is the Utility's only contracted source of water. In addition, the Utility contracts all of its solid waste with a single provider.

Financial instruments which potentially subject the Utility to concentrations of credit risk consist primarily of trade receivables with a variety of customers and cash and cash investments deposited with financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the Utility's customer base being made up of a large number of customers, thus spreading the trade credit risk. The Utility performs ongoing credit evaluations of its customers. Customer meter deposits are available to the Utility to apply to any amounts due upon termination of service.

The Utility, a component unit of the City of Harrison, Arkansas, maintains cash in one commercial bank under the City's federal identification number. The total cash balance under the City's federal identification number is insured by the FDIC up to \$250,000. However, the City participates in a pledged collateral program whereby the bank pledges collateral for balances in excess of the FDIC limit. The Utility believes there is no significant risk with respect to these deposits.



**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 11 - SUBSEQUENT EVENTS**

Management of the Utility has evaluated subsequent events through March 11, 2016, the date on which the financial statements were available to be issued.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**SCHEDULES OF ADMINISTRATIVE AND OTHER EXPENSES**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Accounting and Auditing	\$ 271,500	\$ 274,110
Bad Debt	16,764	92,000
Billing Fee	30,484	30,230
Chemicals	30,576	40,479
Conservation	119,495	114,605
Contracted Services	75,216	109,214
Dues and Subscriptions	1,436	3,006
Fuel	72,527	92,374
Human Resources	6,397	6,276
Insurance	31,584	29,673
Maintenance Fund	69,291	71,461
Material and Supplies	55,861	56,889
Other Administrative	1,608	136
Payroll Taxes	80,315	77,960
Permits	31,174	31,321
Planning Costs	13,450	25,013
Postage	1,169	3,597
Regulatory Compliance	28,303	93,269
Repairs and Maintenance	831,943	447,774
Salaries, Wages and Related Benefits	1,390,083	1,413,297
Training and Travel	11,549	9,789
Utilities and Telephone	128,148	145,895
<b>Total Administrative and Other Expenses</b>	<b><u>\$ 3,298,873</u></b>	<b><u>\$ 3,168,368</u></b>

See Independent Auditors' Report.



***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

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

We have audited the financial statements of Water and Sewer Fund of the City of Harrison, Arkansas (the Utility), a component unit of the City of Harrison, Arkansas, as of and for the year ended December 31, 2014, and have issued our report thereon dated January 14, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-1, 2014-2, 2014-3, and 2014-4 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not note any significant deficiencies.

**Compliance and Other Matters**

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

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

Page 2 of 2

We noted certain matters that we reported to management of the Utility in a separate letter dated January 14, 2016.

**Response to Findings**

The Utility's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Porterfield & Company CPA, PLLC**

Harrison, Arkansas

January 14, 2016

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2014 AND 2013**

**CURRENT YEAR FINDINGS**

**Finding Number 2014-1 - Segregation of Duties**

**Finding:** Due to the small size and structure of the Utility's accounting and management staffs, there is an inadequate segregation of duties. Further, it is not economically feasible for the Utility to achieve a complete segregation of duties. However, there are opportunities and areas in which the level of segregation of duties can be improved in a cost effective manner.

**Recommendation:** We recommend that management review accounting, management and personnel procedures to identify areas in which duties may be further segregated in a cost effective manner and implement procedures designed to improve overall segregation of duties.

**Response:** With limited office personnel, proper segregation of duties is difficult to achieve though all areas of concern will be scrutinized to limit potential errors or fraud. The City of Harrison is continually updating internal policies and procedures and implementing cost effective changes to improve segregation of duties.

**Finding Number 2014-2 - Transaction Processing, Monthly Reconciliation and Closing Procedures**

**Finding:** The Utility's accounting and management staffs have established transaction processing, monthly reconciliation and closing procedures. Not all of these procedures are formalized in writing. Lack of formalized written procedures and have resulted in reconciliation and closing procedures not being consistently and thoroughly applied. This may allow misstatements of financial records.

**Recommendation:** We recommend that management review and develop written procedures for all significant transaction processing, monthly reconciliation and closing processes and that all transaction processing, monthly reconciliation and closing procedures be consistently implemented. We also recommend that management monitor adherence to these procedures.

**Response:** The City of Harrison is continuously updating procedures for transaction processing, monthly reconciliation and closing procedures and is currently working to formalize them in writing.

**Finding Number 2014-3 - Segregation of Duties to Information Technology**

**Finding:** While the Utility has segregated certain duties related to administrator rights to financial applications, the small size of the accounting and management staffs limits the effectiveness of the segregation, especially in the oversight of billing credits and adjustments. Lack of contemporaneous oversight and approval of billing credits and adjustments may lead to misstatements of financial information.

**Recommendation:** We recommend that management review the segregation of duties related to administrator rights to financial applications, especially in the oversight of billing credits and adjustments, in order to establish, to the level possible, contemporaneous oversight and approval of billing credits and adjustments.

**Response:** An essential part of constant upgrades to technology is oversight of the policies and procedures related to accounting and reporting applications, especially approval and input of billing credits and adjustments. The City of Harrison continues to monitor these procedures and will implement cost effective changes to improve segregation of duties to information technology.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS  
SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2014 AND 2013**

**CURRENT YEAR FINDINGS, *continued***

**Finding Number 2014-4 - Unclaimed Property**

**Finding:** Arkansas state law requires the Utility to file an unclaimed property report and turn over unclaimed property to the Arkansas State Auditor's Unclaimed Property Division (UCP) on an annual basis. The report must include any outstanding check which would be dormant for 1 year as of the report date. In addition, a due diligence letter must be mailed within 60 – 120 days before filing the report for any amount over \$50. During our testing of the bank reconciliations we noted approximately 150 outstanding checks that meet the unclaimed property designation, with some dating as far back as January 2011.

**Recommendation:** We recommend that management review the outstanding checks in order to file and remit the unclaimed property report. In addition, we recommend that management monitor adherence to this regulation.

**Response:** The Utility is in the process of getting the reports and money remitted to the state. At this time the 2012 through 2014 unclaimed checks have been turned over to the UCP. The Utility is currently working with the UCP to determine the necessary steps for reporting the 2011 checks with no available addresses.

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**DECEMBER 31, 2014 AND 2013**

**PRIOR YEAR FINDINGS**

**Finding Number 2013-1 - Segregation of Duties**

**Finding:** Due to the small size and structure of the Utility's accounting and management staffs, there is an inadequate segregation of duties. Further, it is not economically feasible for the Utility to achieve a complete segregation of duties. However, there are opportunities and areas in which the level of segregation of duties can be improved in a cost effective manner.

**Recommendation:** We recommend that management review accounting, management and personnel procedures to identify areas in which duties may be further segregated in a cost effective manner and implement procedures designed to improve overall segregation of duties.

**Response:** With limited office personnel, proper segregation of duties is difficult to achieve though all areas of concern will be scrutinized to limit potential errors or fraud. The City of Harrison is continually updating internal policies and procedures and implementing cost effective changes to improve segregation of duties.

**Finding Number 2013-2 - Transaction Processing, Monthly Reconciliation and Closing Procedures**

**Finding:** The Utility's accounting and management staffs have established transaction processing, monthly reconciliation and closing procedures. Not all of these procedures are formalized in writing. Lack of formalized written procedures may result in reconciliation and closing procedures not being consistently and thoroughly applied, which may allow misstatements of financial records.

**Recommendation:** We recommend that management review and develop written procedures for all significant transaction processing, monthly reconciliation and closing processes.

**Response:** The City of Harrison is continuously updating procedures for transaction processing, monthly reconciliation and closing procedures and is currently working to formalize them in writing.

**Finding Number 2013-3 - Segregation of Duties to Information Technology**

**Finding:** While the Utility has segregated certain duties related to administrator rights to financial applications, the small size of the accounting and management staffs limits the effectiveness of the segregation, especially in the oversight of billing credits and adjustments. Lack of contemporaneous oversight and approval of billing credits and adjustments may lead to misstatements of financial information.

**Recommendation:** We recommend that management review the segregation of duties related to administrator rights to financial applications, especially in the oversight of billing credits and adjustments, in order to establish, to the level possible, contemporaneous oversight and approval of billing credits and adjustments.

**Response:** An essential part of constant upgrades to technology is oversight of the policies and procedures related to accounting and reporting applications, especially approval and input of billing credits and adjustments. The City of Harrison continues to monitor these procedures and will implement cost effective changes to improve segregation of duties to information technology.