

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

Management Comment Letter
December 31, 2015



February 20, 2017

Honorable Mayor and Members of the City Council
Water and Sewer Fund of the City of Harrison, Arkansas
Harrison, Arkansas

In planning and performing our audit of the financial statements of Water and Sewer Fund of the City of Harrison, Arkansas for the year ended December 31, 2015, we considered the Fund's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these matters. This letter does not affect our report dated February 20, 2017, on the financial statements of Water and Sewer Fund of the City of Harrison, Arkansas

We will review the status of these comments during our next audit engagement. We have already discussed this matter with the Fund's personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in cursive script that reads 'Porterfield & Company CPA, PLLC'.

Porterfield & Company CPA, PLLC

Cash

Finding: As a component unit of the City of Harrison, Arkansas, the Water and Sewer Fund (the Utility) shares a common tax identification number with other components of the City. All cash accounts of the City are held at Community First Bank. While the accounts are collateralized by the bank, the City's entire custodial credit risk is subject to the stability of this one bank.

Recommendation: We recommend that management consider diversifying their banking relationships thereby spreading the custodial credit risk among a number of financial institutions.

Response: Management will continue to monitor the banking relationship with the same financial institution and look into other interest rates that may be available from other banking institutions; however, Management believes it is being fiscally responsibly by choosing the bank with the highest interest rate. If Management becomes aware of any instability of this one bank, we will promptly consider a change in financial institutions.

Accounts Receivable

Finding: During our testing of accounts receivable we noted continual growth in accounts over ninety days old.

Recommendation: We recommend that the management establish formal written procedures to ensure that all delinquent accounts are reviewed monthly and disconnections are made in accordance with the policy.

Response: Management has started the process of changing billing systems and will establish formal written procedures along with this change. All delinquent accounts will be reviewed and disconnected in accordance with the procedures.

Accounts Payable

Finding: During our testing of accounts payable we noted several vendor accounts that were not reconciled, one extremely old invoice, and two vendors that had old outstanding credits.

Recommendation: We recommend that management request a refund check for the outstanding credits. In addition, we recommend that management establish procedures to reconcile the accounts payable on no less than a quarterly basis.

Response: Management has reviewed vendor accounts and will be requesting refund checks on all credits available within three months of inactivity with the vendor

Water Usage

Finding: During our comparison of water purchased versus water billed we noted that the number of gallons purchase far exceeded the number of gallons billed to customers. This difference was significantly more than normal system loss.

Recommendation: We recommend that the management establish procedures to track usage by all city departments so that system loss can be more closely monitored. We also recommend that management continue and even expand the search for the source(s) of the water loss.

Response: Management is continually monitoring and tracking interdepartmental and other water usage and looking for explanations of unbillable water. In 2014 and 2015, the City had an outside company perform a leak study to find broken lines and repair those to facilitate a savings of over 100,000,000 gallons of water. Management is also currently in the process of updating the billing system and replacing approximately 5,000 meters that are potentially not tracking all of the gallons flowing past the meter to the end user.

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

Financial Statements
December 31, 2015 and 2014

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Table of Contents

	<u>Page</u>
Management's Discussion and Analysis	1
Independent Auditors' Report	3
Basic Financial Statements	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Schedules of Administrative and Other Expenses	16
Other Reports	
Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
Schedule of Findings and Responses	19

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014. 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>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Assets	\$ 24,729,444	\$ 22,745,146	\$ 22,915,596	\$ 20,889,079
Net Capital Assets	19,010,587	17,281,866	17,375,184	15,927,085
Total Liabilities	3,220,978	858,189	892,651	921,698
Net Position Invested in Capital Assets	19,010,587	17,281,866	17,375,184	15,927,085
Unrestricted Net Position	2,497,879	4,605,091	4,647,761	4,040,296
Total Net Position	21,508,466	21,866,957	22,022,945	19,967,381
Total Operating Revenues	6,457,966	6,249,979	6,793,895	5,755,989
Total Operating Expenses	6,912,105	6,969,539	6,827,908	5,931,390
Total Other Revenues	75,648	583,572	2,089,576	1,322,119
Increase (Decrease) in Net Position	(378,491)	(135,988)	2,055,563	1,146,718

Total Assets - Total assets increased approximately \$1,984,000 from December 31, 2014 to 2015. This increase was due primarily to purchases of capital 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)

Page 2 of 2

Net Capital Assets - Net capital assets increased approximately \$1,729,000 from December 31, 2014 to 2015. This increase was due to capital improvements of \$2,506,000, which were off-set by an increase in accumulated depreciation of \$777,000. 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 increased approximately \$2,363,000 from December 31, 2014 to 2015, due primarily to new long-term debt. Total liabilities decreased approximately \$34,000 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 \$380,000 from December 31, 2014 to 2015, due to an operating loss of \$455,000 offset by other income of \$75,000. Total net position decreased approximately \$136,000 from December 31, 2013 to 2014, due to an operating loss of \$720,000 offset by other income of \$584,000.

Total Operating Revenues - Total operating revenues increased approximately \$210,000 from December 31, 2014 to 2015. This increase was primarily due to increases in water, sewer and sanitation revenues. Total operating revenues decreased approximately \$545,000 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 decreased approximately \$57,000 from December 31, 2014 to 2015. This decrease was due primarily to decreases in administrative and other expenses of \$305,000, which were offset by increases in water purchases of \$156,000, sanitation contracted services of \$23,000, and depreciation of \$69,000. 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 \$510,000 from December 31, 2014 to 2015 and \$1,500,000 from December 31, 2013 to 2014. These decreases were 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, 2015 and 2014, 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 audits. We conducted our audits 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, 2015 and 2014, 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

Page 2 of 2

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, 2015 and 2014, 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 February 20, 2017 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
February 20, 2017

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
Current Assets		
Cash and Cash Equivalents	\$ 4,260,185	\$ 4,085,705
Accounts Receivable, less allowance for doubtful accounts of \$215,000 and \$165,000 in 2015 and 2014	872,382	784,747
Accounts Receivable - Inter-fund	711	14,579
Inventory	179,605	190,426
Prepaid Expenses	-	12,381
Total Current Assets	5,312,883	5,087,838
Restricted Assets		
Meter Deposits	405,974	375,442
Net Restricted Assets	405,974	375,442
Property, Plant and Equipment, at Cost		
Land	13,085	13,085
Property, Plant and Equipment, at Cost	34,039,873	31,534,319
Accumulated Depreciation	(15,042,371)	(14,265,538)
Net Property, Plant and Equipment	19,010,587	17,281,866
Total Assets	\$ 24,729,444	\$ 22,745,146
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable - Trade	\$ 315,516	\$ 298,920
Accounts Payable - Inter-fund	13,781	13,972
Accrued Liabilities	31,153	24,630
Accrued Compensated Absences - Current Portion	60,468	57,431
Current Portion of Long-Term Debt	148,943	-
Total Current Liabilities	569,861	394,953
Liabilities Payable from Restricted Assets		
Meter Deposits	405,974	375,442
Total Liabilities Payable from Restricted Assets	405,974	375,442
Long-term Liabilities		
Accrued Compensated Absences - Long-term Portion	83,109	87,794
Long-Term Debt	2,162,034	-
Total Long-term Liabilities	2,245,143	87,794
Total Liabilities	3,220,978	858,189
Net Position		
Invested in Capital Assets	19,010,587	17,281,866
Unrestricted	2,497,879	4,605,091
Total Net Position	21,508,466	21,886,957
Total Liabilities and Net Position	\$ 24,729,444	\$ 22,745,146

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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water	\$ 2,931,163	\$ 2,813,852
Sewer	1,692,981	1,632,274
Sanitation	1,801,582	1,767,730
Other Operating Income	32,240	36,123
Total Operating Revenues	<u>6,457,966</u>	<u>6,249,979</u>
Operating Expenses		
Water Purchases	1,527,403	1,370,855
Sanitation Contracted Service	1,614,441	1,591,583
Administrative and Other Expenses	2,993,428	3,298,873
Depreciation	776,833	708,228
Total Operating Expenses	<u>6,912,105</u>	<u>6,969,539</u>
Operating Income (Loss)	<u>(454,139)</u>	<u>(719,560)</u>
Other Income (Expense)		
Infrastructure Sales Tax Revenue	32,991	543,019
Interest Income	42,657	40,553
Total Other Income (Expense)	<u>75,648</u>	<u>583,572</u>
Increase (Decrease) in Net Position	(378,491)	(135,988)
Net Position, Beginning of Year	<u>21,886,957</u>	<u>22,022,945</u>
Net Position, End of Year	<u>\$ 21,508,466</u>	<u>\$ 21,886,957</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, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Cash Received from:		
Customers	\$ 6,338,091	\$ 6,359,473
Other Operating Activities	32,240	36,123
Cash Paid for:		
Water	(1,527,403)	(1,370,855)
Sanitation Contracted Service	(1,614,632)	(1,634,791)
Salaries, Wages and Related Benefits	(950,838)	(1,123,261)
Administrative and Other Expenses	(1,852,011)	(2,267,010)
Net Cash Provided by (Used in) Operating Activities	425,447	(321)
Cash Flows from Noncapital Financing Activities		
Infrastructure Sales Tax Revenue	46,859	572,152
Net Cash Provided by (Used in) Noncapital Financing Activities	46,859	572,152
Cash Flows from Capital Financing Activities		
Proceeds from Long-Term Debt	2,162,034	-
Purchases of Property, Plant and Equipment	(2,505,554)	(614,910)
Net Cash Provided by (Used in) Capital Financing Activities	(343,520)	(614,910)
Cash Flows from Investing Activities		
Transfers (to) from Meter Deposits Restricted Assets	(30,532)	(17,565)
Increase (Decrease) in Meter Deposits Liability	30,532	17,565
Interest Income	42,657	40,553
Net Cash Provided by (Used in) Investing Activities	42,657	40,553
Net Increase (Decrease) in Cash and Equivalents	171,443	(2,526)
Cash and Cash Equivalents, Beginning of Year	4,084,791	4,087,317
Cash and Cash Equivalents, End of Year	\$ 4,256,234	\$ 4,084,791
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating Income (Loss)	\$ (454,139)	\$ (719,560)
Depreciation	776,833	708,228
Changes in Assets and Liabilities:		
Accounts Receivable	(87,635)	53,617
Inventory	10,821	4,689
Prepaid Expenses	12,381	5,646
Accounts Payable	16,596	(11,504)
Accounts Payable - Due to Other Funds	(191)	(43,208)
Accrued Liabilities	150,781	1,771
Net Cash Provided by (Used in) Operating Activities	\$ 425,447	\$ (321)
Supplementary Information		
Cash Paid for Interest	\$ -	\$ -

See notes to financial statements.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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, 2015 AND 2014

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, 2015 and 2014, 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, 2015 AND 2014

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, 2015 or 2014.

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, 2015 and 2014 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, 2015 AND 2014

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 \$143,577 and \$145,225 at December 31, 2015 and 2014, 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:

	<u>Bank Balance</u>	<u>Carrying Balance</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by pledged securities	4,550,736	4,415,459
Other assets held in trust	-	-
Uninsured or Uncollateralized	-	-
Total	<u>\$ 4,800,736</u>	<u>\$ 4,666,459</u>

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, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Accounts Receivable – Trade	\$ 1,080,912	\$ 946,097
Less Allowance for Doubtful Accounts	<u>(215,000)</u>	<u>(165,000)</u>
Net Accounts Receivable – Trade	865,912	781,097
Accounts Receivable – Construction	6,470	3,650
Total Accounts Receivable	<u>\$ 872,382</u>	<u>\$ 784,747</u>

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

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

	Estimated Useful Life (in Years)	Balance 12/31/14	Additions	Disposals	Balance 12/31/15
Land	N/A	\$ 13,085	\$ -	\$ -	\$ 13,085
Water Plant	10 - 50	10,081,025	-	-	10,081,025
Sewer Plant	50	16,433,264	33,923	-	16,467,187
Machinery and Equipment	5 - 10	2,017,515	23,741	-	2,041,256
Transportation Equipment	5 - 10	1,332,992	119,345	-	1,452,337
Furniture, Fixtures and Office Equipment	5 - 15	316,082	-	-	316,082
Water Meters	20	-	2,310,976	-	2,310,976
Water Lines	50	1,353,441	17,569	-	1,371,010
Total Property, Plant and Equipment, at Cost		31,547,404	2,505,554	-	34,052,958
Less: Accumulated Depreciation		(14,265,538)	(776,833)	-	(15,042,371)
Net Property, Plant and Equipment		<u>\$ 17,281,866</u>	<u>\$ (1,728,721)</u>	<u>\$ -</u>	<u>\$ 19,010,587</u>

	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	1,240,183	113,258	-	1,353,441
Total Property, Plant and Equipment, at Cost		30,932,494	614,910	-	31,547,404
Less: Accumulated Depreciation		(13,557,310)	(708,228)	-	(14,265,538)
Net Property, Plant and Equipment		<u>\$ 17,375,184</u>	<u>\$ (93,318)</u>	<u>\$ -</u>	<u>\$ 17,281,866</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$776,833 and \$708,228, respectively.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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.

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 14.50% from July 1, 2015 and 14.76% from July 1, 2014 of annual covered payroll. The Utility's contributions to APERS were \$159,877 and \$162,418 for the years ending December 31, 2015 and 2014, respectively.

NOTE 6 - LONG-TERM DEBT

Long-term debt consisted of the following:

	<u>12/31/2014</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>12/31/2015</u>
Note payable to Anstaff Bank: original loan \$2,310,977; interest 2.97% quarterly payments of \$53,990, including interest to 2029	\$ 0	\$ 2,310,977	\$ 0	\$ 2,310,977
Total Debt	0	<u>\$ 2,310,977</u>	<u>\$ 0</u>	2,310,977
Less: Current Portion	<u>(0)</u>			<u>(148,943)</u>
Long-Term Portion	<u>\$ 0</u>			<u>\$ 2,162,034</u>

Maturities for the years ending December 31 are as follows:

	<u>Principal</u>
2016	\$ 148,943
2017	155,543
2018	159,900
2019	164,379
2020	168,983
2021 - 2025	918,622
2026 - 2029	<u>594,607</u>
Total Long-Term Debt	<u>\$ 2,310,977</u>

NOTE 7 - 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, 2015 and 2014 the reimbursements were approximately \$381,000 and \$382,000, respectively.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 8 - 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, 2015.

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, 2015 and 2014, 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.

NOTE 9 - 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 proceeding 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.

WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10 - WATER AND SEWER RATES

In order to provide funding for system improvements, various water and sewer rates were established by ordinance. In February 2014, City Council passed an ordinance that beginning July 1, 2015, and for each year thereafter until amended by council action, the water and sewer rates shall be increased by an annual percentage as determined by the annual United States Consumer Price Index for the previous calendar year.

The rates in effect for the years ended December 31, 2015 are as follows:

	<u>Water Rates</u>	<u>Sewer Rates</u>
First 1,500 gallons	\$10.59 minimum	\$8.05 minimum
Next 25,000 gallons	\$4.51 per 1,000 GA	\$4.79 per 1,000 GA
Next 250,000 gallons	\$4.08 per 1,000 GA	\$4.67 per 1,000 GA
Usage over 250,000 gallons	\$4.16 per 1,000 GA	\$4.75 per 1,000 GA

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 11 - 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.

NOTE 12 - SUBSEQUENT EVENTS

Management of the Utility has evaluated subsequent events through February 20, 2017, 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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Accounting and Auditing	\$ 280,670	\$ 271,500
Bad Debt	50,300	16,764
Billing Fee	30,829	30,484
Chemicals	34,039	30,576
Conservation	122,865	119,495
Contracted Services	126,936	75,216
Dues and Subscriptions	2,874	1,436
Fuel	50,344	72,527
Human Resources	6,276	6,397
Insurance	46,968	31,584
Interest Expense	21,398	-
Maintenance Fund	72,105	69,291
Material and Supplies	55,349	55,861
Other Administrative	1,645	1,608
Payroll Taxes	81,059	80,315
Permits	31,012	31,174
Planning Costs	10,396	13,450
Postage	1,389	1,169
Regulatory Compliance	64,756	28,303
Repairs and Maintenance	355,174	831,943
Salaries, Wages and Related Benefits	1,375,262	1,390,083
Training and Travel	11,593	11,549
Utilities and Telephone	160,189	128,148
	<u> </u>	<u> </u>
Total Administrative and Other Expenses	<u><u>\$ 2,993,428</u></u>	<u><u>\$ 3,298,873</u></u>

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, 2015, and have issued our report thereon dated February 20, 2017. 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 2015-1, 2015-2, and 2015-3 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 February 20, 2017.

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
February 20, 2017

**WATER AND SEWER FUND OF THE CITY OF HARRISON, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2015 AND 2014**

CURRENT YEAR FINDINGS

Finding Number 2015-1 - 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 2015-2 - 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 2015-3 - 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, 2015 AND 2014**

PRIOR 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 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 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, 2015 AND 2014**

PRIOR 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.