

GURDON MUNICIPAL WATER AND SEWER WORKS



GURDON, ARKANSAS

MAY 31, 2019

GURDON MUNICIPAL WATER AND SEWER WORKS
 GURDON, ARKANSAS
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Gurdon, Arkansas

Report on the Financial Statement

We have audited the accompanying financial statements of Gurdon Municipal Water and Sewer Works of Gurdon, Arkansas, as of and for the years ended May 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Gurdon Municipal Water and Sewer Works' basic 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Gurdon Municipal Water and Sewer Works as of May 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Gurdon Municipal Water and Sewer Works and do not purport to, and do not present fairly the financial position of the City of Gurdon, Arkansas, as of May 31, 2019 and 2018, 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*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 24 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 performed for the purpose of forming an opinion on the financial statements of Gurdon Municipal Water and Sewer Works' taken as a whole. The accompanying supplemental information presented herein on pages 18-23 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or

to the 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 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 July 23, 2020, on our consideration of the Gurdon Municipal Water and Sewer Works' 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 solely 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 the effectiveness of the Gurdon Municipal Water and Sewer Works' 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 Gurdon Municipal Water and Sewer Works' internal control over financial reporting and compliance.

Turner, Rodgers, Manning & Plyler, PLLC

July 23, 2020

Arkadelphia, Arkansas

GURDON MUNICIPAL WATER AND SEWER WORKS
BALANCE SHEETS
MAY 31, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS:		
Cash	\$ 274,696	\$ 235,704
Certificates of Deposit	418,408	412,997
Accounts Receivable	67,947	67,837
Inventory of Materials and Supplies	57,569	60,022
Prepaid Expenses	3,515	3,949
Accrued Interest Receivable	156	142
TOTAL CURRENT ASSETS	822,291	780,651
 TOTAL RESTRICTED ASSETS (Schedule II)	 153,144	 145,227
 PLANT AND EQUIPMENT:		
Land	20,115	20,115
Water Plant, Extensions, and Improvements	1,647,269	1,647,269
Sewer Plant, Extensions, and Improvements	2,696,784	2,696,784
Rural Plant, Extensions, and Improvements	2,233,344	2,233,344
Vehicles and Equipment	609,546	563,333
	7,207,058	7,160,845
Less: Accumulated Depreciation	(4,916,814)	(4,753,616)
TOTAL PLANT AND EQUIPMENT	2,290,244	2,407,229
 TOTAL ASSETS	 \$ 3,265,679	 \$ 3,333,107

The accompanying notes are an integral part of these Financial Statements.

GURDON MUNICIPAL WATER AND SEWER WORKS
BALANCE SHEETS
MAY 31, 2019 AND 2018

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LIABILITIES AND FUND EQUITY

	2019	2018
CURRENT LIABILITIES:		
Accounts Payable	\$ 28,542	\$ 16,079
Accrued Salaries	1,373	786
Accrued Taxes Payable	8,929	9,661
Notes Payable - Current Maturity	5,063	4,919
TOTAL CURRENT LIABILITIES	43,907	31,445
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued Interest Payable	1,556	1,616
Customers' Meter Deposits	99,294	91,431
Rural Development Bonds Payable - Current Maturity	23,414	22,272
TOTAL LIABILITIES PAYABLE FROM RESTRICTED FUNDS	124,264	115,319
 LONG-TERM DEBT:		
Rural Development Bond Payable (1992)	88,994	94,342
Rural Development Bond Payable (1997)	464,585	482,693
First State Bank Note Payable	3,009	8,073
TOTAL LONG-TERM DEBT	556,588	585,108
 TOTAL LIABILITIES	724,759	731,872
 FUND EQUITY:		
Contributed Capital	2,270,969	2,270,969
Retained Earnings:		
Reserved	28,880	29,908
Unreserved	241,071	300,358
TOTAL FUND EQUITY	2,540,920	2,601,235
 TOTAL LIABILITIES AND FUND EQUITY	\$ 3,265,679	\$ 3,333,107

The accompanying notes are an integral part of these Financial Statements.

GURDON MUNICIPAL WATER AND SEWER WORKS
 STATEMENTS OF REVENUE, EXPENSES AND
 CHANGES IN FUND EQUITY
 FOR YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018
OPERATING REVENUE:		
Water Revenue	\$ 362,844	\$ 368,623
Sewer Revenue	244,638	249,435
Penalties	20,004	19,106
Connection Fees	13,050	13,810
Processing Services	24,000	24,000
Other Income	221	8,985
TOTAL OPERATING REVENUE	664,757	683,959
OPERATING EXPENSES (SCHEDULE I)	590,098	728,476
OPERATING INCOME (LOSS)	74,659	(44,517)
OTHER INCOME (EXPENSES):		
Interest Earned	6,460	4,920
Interest Expense	(29,976)	(30,675)
TOTAL OTHER INCOME (EXPENSES)	(23,516)	(25,755)
NET INCOME (LOSS)	51,143	(70,272)
FUND EQUITY, BEGINNING OF YEAR	2,601,235	2,753,008
TRANSFERS TO CITY OF GURDON	(111,458)	(81,501)
FUND EQUITY, END OF YEAR	\$ 2,540,920	\$ 2,601,235

The accompanying notes are an integral part of these Financial Statements.

GURDON MUNICIPAL WATER AND SEWER WORKS
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED MAY 31, 2019 AND 2018

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	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 660,101	\$ 679,532
Cash Paid to Suppliers	(213,993)	(386,198)
Cash Paid to Employees	(193,156)	(188,959)
NET CASH FLOW FROM OPERATING ACTIVITIES	252,952	104,375
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	6,446	4,956
Investment Purchases	(5,412)	(3,506)
NET CASH FLOW FROM INVESTING ACTIVITIES	1,034	1,450
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Change in Meter Deposits	7,863	(4,501)
Transfer to City of Gurdon	(111,458)	(81,501)
NET CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES	(103,595)	(86,002)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Debt	-	15,000
Fixed Asset Acquisition	(46,213)	(73,373)
Principal Debt Payment	(27,234)	(23,197)
Interest Payment	(30,036)	(30,714)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(103,483)	(112,284)
NET CHANGE IN CASH AND CASH EQUIVALENTS	46,908	(92,461)
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	295,616	388,077
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 342,524	\$ 295,616

The accompanying notes are an integral part of these Financial Statements.

GURDON MUNICIPAL WATER AND SEWER WORKS
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED MAY 31, 2019 AND 2018

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Reconciliation of operating income to net cash provided by operating activities:

	2019	2018
OPERATING INCOME	\$ 74,659	\$ (44,517)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	163,198	160,623
Bad Debts	4,546	3,398
Change in Assets and Liabilities:		
Accounts Receivable	(4,656)	(4,427)
Inventory	2,453	(10,485)
Prepaid Expenses	434	(114)
Accounts Payable and Accrued Expenses	12,318	(103)
TOTAL ADJUSTMENTS	178,293	148,892
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 252,952	\$ 104,375

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

None

The accompanying notes are an integral part of these Financial Statements.

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

Note 1. Significant Accounting Policies:

The Gurdon Municipal Water and Sewer Works is an enterprise fund of the City of Gurdon, Arkansas. The System is governed by the Board of Directors of the City of Gurdon, Arkansas. The accompanying financial statements and other information reflect the Gurdon Municipal Water and Sewer Works fund and do not include other funds of the City of Gurdon, Arkansas.

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The System applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The System applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

Inventory of material and supplies is stated at cost on the first-in, first-out basis.

Plant infrastructure and equipment are stated on the basis of cost, and depreciation is calculated using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Water Plant	40
Sewer Plant	40
Vehicles and Equipment	4 - 10

Depreciation is partially funded by transfers to the depreciation fund at the rate of 5% of gross revenues of the System. Debt Service Reserves were fully funded on May 31, 2019.

For purposes of the Statement of Cash Flows, the System considers all highly liquid investments (including restricted assets), such as certificates of deposit, with a maturity of three months or less when purchased to be cash equivalents.

The Utility System requires every customer to pay a cash meter deposit before service is provided. Concentrations of credit risk with respect to trade receivables are limited by these deposits. The Utility monitors its exposure for credit losses and maintains allowances for anticipated losses, if warranted.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GURDON MUNICIPAL WATER AND SEWER WORKS
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2019

Note 1. Significant Accounting Policies: (Continued)

The System has investments of \$503,714 in bank certificates of deposit. Maturities are as follows:

Maturity Date	Market Value at 5/31/2019
10/22/2019	\$ 85,306
12/20/2019	129,958
8/27/2019	119,967
9/14/2019	104,829
9/27/2019	63,654
	\$ 503,714

Note 2. Current Assets:

The accounts receivable at May 31, 2019 amounting to \$67,947 are for May billings except for \$3,475, which are accounts in arrears.

The materials and supplies inventory in the amount of \$57,569 contains various items on hand for use in repair and maintenance of the plant and for extensions. A physical inventory was taken on May 31, 2019.

Prepaid insurance consists of the unexpired portion of payments for insurance coverage.

Note 3. Restricted Assets:

Schedule II of this report shows a schedule of restricted assets at May 31, 2019, compared with those balances at May 31, 2018.

Note 4. Liabilities:

Accounts payable in the amount of \$28,542, reported as a current liability, is composed of operating expenses for May 2019 paid in June 2019.

Note 5. Bonded Debt:

In July, 1992, the System issued a 5% Water and Sewer Revenue Bond for \$170,000 to USDA/Rural Development. Interest only was due at July 28, 1993. Payments of \$828 per month for 39 years began August 28, 1993. This bond was issued to finance a new water well and transmission line. A schedule of debt service requirements is presented on Schedule IV of this report.

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

Note 5. Bonded Debt: (Continued)

In April, 1997 the System issued a revenue bond to the USDA/Rural Development for \$709,300 for part of the financing of Phase II of the Rural Water Project. This is a 5% bond to be paid over 40 years. Payments of \$3,483 per month for 38 years began May 8, 1999. A schedule of debt service requirements is presented on Schedule V of this report.

Bonds payable as of May 31, 2019 and 2018 are summarized as follows:

	5/31/2019	5/31/2018
1992 Revenue Bond - Rural Development; payable \$828 monthly including interest at 5%, collateralized by system revenues.	\$ 94,335	\$ 99,422
1997 Revenue Bond - Rural Development; payable \$3,483 monthly including interest at 5%, collateralized by system revenues.	482,658	499,885
	576,993	599,307
Less portion considered current	(23,414)	(22,272)
Total long-term debt	\$ 553,579	\$ 577,035

Note 6. Notes Payable:

The System entered into a loan agreement with First State Bank on December 18, 2017. Proceeds from the loan were \$15,000, at 2.89% interest. Monthly payments are set at \$435.82 to be paid over a period of 36 months. On May 31, 2019 the outstanding balance due is \$8,072 with principal payments for the next two years of \$5,063 in 2020, and \$3,009 in 2021; and interest payments of \$167 in 2020, and \$30 in 2021.

Note 7. Contributed Capital and Retained Income:

Contributed capital represents grants received to assist in financing construction of new additions or replacements to the system. The amount of grants received was \$2,098,194, of which \$377,467 was from the Arkansas Community and Economic Development Program, \$929,102 was from the Department of Housing and Urban Development and \$791,625 from the Arkansas Industrial Development Commission and passed through Clark County, Arkansas.

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

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Note 7. Contributed Capital and Retained Income: (Continued)

Contributed capital also includes the value of system additions paid for by customers. The City of Whelen Springs contributed \$50,000 toward the construction of a new well, and the Gurdon Public Schools contributed \$58,700 toward the rural water project. The total amount of customers' contribution was \$172,775 at May 31, 2019.

Retained Earnings in the amount of \$269,951 as of May 31, 2019 consists of the accumulated earnings of the Water and Sewer Works of \$241,071 and the excess of restricted assets over liabilities payable from restricted assets of \$28,880.

Note 8. Public Fund Deposits and Investments:

State law generally requires that City funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America. All cash funds of the Systems, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of Gurdon Municipal Water and Sewer Works in financial institutions permitted by law.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. Gurdon Municipal Water and Sewer Works does not have a policy for custodial credit risk. The carrying value of the Systems' accounts and investments at May 31, 2019 was \$846,239. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$848,213 before reduction of outstanding items. Financial institutions pledged securities with a fair market value of \$405,077 to collateralize deposits.

The securities held as collateral are classified as to credit risk under three categories, as follows:

- Category 1 - Collateralized with securities held by the Systems or by its agent in the Systems' name,
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the Systems' name.
- Category 3 - Uncollateralized - this includes held by the pledging financial institution's trust department or agent but not in the Systems' name.

All securities are classified under category 3, above.

Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all time and savings accounts, and separately \$250,000 on all demand accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Gurdon Municipal Water and Sewer Works' accounts and investments. FDIC coverage

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

Note 8. Public Fund Deposits and Investments: (Continued)

is provided on an entity level to be shared jointly by all City of Gurdon accounts and investments at a financial institution.

Investment Interest Rate Risk: Gurdon Municipal Water and Sewer Works does not have an investment interest rate risk. All investments are six-month certificates of deposit and the Systems are under no obligation to renew upon maturity.

Investment Credit Risk: Gurdon Municipal Water and Sewer Works does not have a formal investment policy. All investments are short-term certificates of deposit with banks authorized by state law to receive deposits of public funds and with which the System has a collateral agreement.

Foreign Currency Risk: Gurdon Municipal Water and Sewer Works has no exposure to foreign currency risk.

Note 9. General:

In addition to the insurance carried on the System's equipment, a blanket bond of \$50,000 per person, per occurrence, is carried by the Commission on all employees. The City of Gurdon maintains insurance on the plant and equipment.

The City of Gurdon contracts with an outside service company for garbage service. The Utility System bills and collects for the service and remits the collections to the City Treasurer.

The System has an agreement to furnish water to the City of Whelen Springs, Arkansas. The System charges a minimum bill of \$1,700 for the first 400,000 gallons of water and \$2.55 for each additional 1,000 gallons each month. In addition, the System charged the City of Whelen Springs \$24,000 for operating the system for the City.

The City's personnel policy allows for sick leave of one and one-half days per month to a maximum accumulation of 60 days. Employees are not paid for any unused sick leave.

The System's customers are classified as water and sewer service, water service only, sewer service only, and garbage pickup only. The total number of customers at May 31, 2019 was 1,275.

Ordinance # 17-003 passed March 27, 2017 set the following water rates:

1. For residence and small businesses (3/4" meters) (excluding customers on Gurdon Rural Water System):

For first 1,000 gallons of water consumption per month or portion thereof	\$ 13.00 (minimum)
In excess of 1,000 gallons of water consumption per month	\$ 1.75 per 1,000 gallons

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2019

Note 9. General: (Continued)

2. For residence and small businesses on Gurdon Rural Water System (3/4" meters):
For first 1,000 gallons of water consumption per month or portion thereof \$ 19.75 (minimum)
In excess of 1,000 gallons of water consumption per month \$ 2.75 per 1,000 gallons
3. For businesses and apartment complexes (2" meters):
For the first 25,000 gallons water consumption per month or portion thereof \$ 53.00 (minimum)
In excess of 25,000 gallons of water consumption per month \$ 1.75 per 1,000 gallons

Ordinance # 17-003 passed March 27, 2017 set the following sewer rates:

1. For residence and small businesses (excluding customers on Gurdon Rural Water System):
For first 1,000 gallons water consumption per month or portion thereof \$ 15.25 (minimum)
In excess of 1,000 gallons water consumption per month \$ 2.30 per 1,000 gallons
2. For residence and small businesses on Gurdon Rural Water System:
For first 1,000 gallons water consumption per month or portion thereof \$ 19.30 (minimum)
In excess of 1,000 gallons water consumption per month \$ 2.30 per 1,000 gallons
3. For businesses and apartment complexes:
For first 25,000 gallons water consumption per month or portion thereof \$ 65.20 (minimum)
In excess of 25,000 gallons water consumption per month \$ 2.30 per 1,000 gallons

GURDON MUNICIPAL WATER AND SEWER WORKS
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2019

Note 10. Capital Assets:

Capital Asset activity for the year ended May 31, 2019 and 2018 was as follows:

	5/31/2018 BALANCE	INCREASES	DECREASES	5/31/2019 BALANCE
CAPITAL ASSETS:				
Land	\$ 20,115	\$ -	\$ -	\$ 20,115
Water Plant	1,647,269	-	-	1,647,269
Sewer Plant	2,696,784	-	-	2,696,784
Rural Plant	2,233,344	-	-	2,233,344
Vehicles and Equipment	563,333	46,213	-	609,546
TOTAL CAPITAL ASSETS AT HISTORICAL COST	7,160,845	46,213	-	7,207,058
LESS ACCUMULATED DEPRECIATION:				
Water Plant	(1,330,363)	(24,509)	-	(1,354,872)
Sewer Plant	(1,760,088)	(67,420)	-	(1,827,508)
Rural Plant	(1,176,586)	(55,834)	-	(1,232,420)
Vehicles and Equipment	(486,579)	(15,435)	-	(502,014)
TOTAL DEPRECIATION	(4,753,616)	(163,198)	-	(4,916,814)
NET CAPITAL ASSETS	2,407,229	(116,985)	-	2,290,244
	5/31/2017 BALANCE	INCREASES	DECREASES	5/31/2018 BALANCE
CAPITAL ASSETS:				
Land	\$ 20,115	\$ -	\$ -	\$ 20,115
Water Plant	1,647,269	-	-	1,647,269
Sewer Plant	2,696,784	-	-	2,696,784
Rural Plant	2,233,344	-	-	2,233,344
Vehicles and Equipment	489,960	73,373	-	563,333
TOTAL CAPITAL ASSETS AT HISTORICAL COST	7,087,472	73,373	-	7,160,845
LESS ACCUMULATED DEPRECIATION:				
Water Plant	(1,299,685)	(30,678)	-	(1,330,363)
Sewer Plant	(1,692,668)	(67,420)	-	(1,760,088)
Rural Plant	(1,120,752)	(55,834)	-	(1,176,586)
Vehicles and Equipment	(479,888)	(6,691)	-	(486,579)
TOTAL DEPRECIATION	(4,592,993)	(160,623)	-	(4,753,616)
NET CAPITAL ASSETS	2,494,479	(87,250)	-	2,407,229

INDEPENDENT AUDITORS' 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 City Council
Gurdon Municipal Water and Sewer Works

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Gurdon Municipal Water and Sewer Works as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the Gurdon Municipal Water and Sewer Works' basic financial statements, and have issued our report thereon dated July 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gurdon Municipal Water and Sewer Works' 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 Gurdon Municipal Water and Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of Gurdon Municipal Water and Sewer Works' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gurdon Municipal Water and Sewer Works' financial statements are free from 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*.

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 an entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

July 23, 2020

**GURDON MUNICIPAL WATER AND SEWER WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2019**

Summary of Auditor's Results

The auditor's report expresses an unqualified opinion on the financial statements of Gurdon Municipal Water and Sewer Works.

No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements.

No instances of noncompliance material to the financial statements of the Gurdon Municipal Water and Sewer Works were disclosed by during the audit.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

N/A

SUPPLEMENTAL INFORMATION

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULES OF OPERATING EXPENSES
 FOR YEARS ENDED MAY 31, 2019 AND 2018

SCHEDULE I
 Page 19

	2019	2018
OPERATING EXPENSES:		
Salaries	\$ 193,742	\$ 189,745
Depreciation:		
Water Plant	24,509	30,678
Sewer Plant	67,420	67,420
Rural Plant	55,834	55,834
Other	15,435	6,691
Maintenance and Repairs:		
Water Plant	49,266	131,720
Sewer Plant	49,126	88,088
Utilities	35,365	48,748
Auditing and Legal	6,057	7,547
Office Supplies and Expense	18,248	18,745
Training and Seminars	175	295
Vehicle Expense	15,109	17,925
Payroll Taxes	11,478	13,865
Insurance	26,734	30,271
Federal Safe Drinking Water Fee	5,016	5,016
Licenses and Permits	1,388	5,187
Bad Debts	4,546	3,398
Miscellaneous	10,650	7,303
TOTAL OPERATING EXPENSES	\$ 590,098	\$ 728,476

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULES OF RESTRICTED ASSETS
 MAY 31, 2019 AND 2018

	2019	2018
DEPRECIATION FUND:		
Cash	\$ 53,850	\$ 53,796
TOTAL DEPRECIATION FUND	53,850	53,796
CUSTOMERS' METER DEPOSIT FUND:		
Cash	13,979	6,116
Certificates of Deposit	85,306	85,306
Accrued Interest Receivable	9	9
TOTAL CUSTOMERS' METER DEPOSIT FUND	99,294	91,431
TOTAL RESTRICTED ASSETS	\$ 153,144	\$ 145,227

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULE OF OPERATING INCOME BY DEPARTMENT
 FOR YEAR ENDED MAY 31, 2019

	<u>WATER</u> <u>DEPARTMENT</u>	<u>SEWER</u> <u>DEPARTMENT</u>
OPERATING INCOME:		
Water and Sewer Service	\$ 362,844	\$ 244,638
Penalties	6,601	13,403
Connection Fee	13,050	-
Processing Services	24,000	-
Other Income	221	-
TOTAL OPERATING INCOME	406,716	258,041
OPERATING EXPENSES:		
Salaries	96,871	96,871
Depreciation	85,436	77,762
Maintenance and Repairs	49,266	49,126
Utilities	11,670	23,695
Auditing and Legal	3,029	3,028
Office Supplies and Expense	6,022	12,226
Training Seminars	175	-
Vehicle Expense	4,986	10,123
Payroll Taxes	5,739	5,739
Insurance	8,822	17,912
Federal Safe Drinking Water Fee	5,016	-
Licenses and Permits	1,388	-
Bad Debts	2,728	1,818
Miscellaneous	5,325	5,324
TOTAL OPERATING EXPENSES	286,473	303,624
INCOME (LOSS) FROM OPERATIONS	\$ 120,243	\$ (45,583)

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 RURAL DEVELOPMENT REVENUE BOND DATED JULY 30, 1992
 MAY 31, 2019

SCHEDULE IV
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<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-19				\$ 94,335
05-31-20	\$ 9,936	\$ 4,595	\$ 5,341	88,994
05-31-21	9,936	4,323	5,613	83,381
05-31-22	9,936	4,035	5,901	77,480
05-31-23	9,936	3,733	6,203	71,277
05-31-24	9,936	3,415	6,521	64,756
05-31-25	9,936	3,083	6,853	57,903
05-31-26	9,936	2,731	7,205	50,698
05-31-27	9,936	2,363	7,573	43,125
05-31-28	9,936	1,976	7,960	35,165
05-31-29	9,936	1,568	8,368	26,797
05-31-30	9,936	1,140	8,796	18,001
05-31-31	9,936	690	9,246	8,755
05-31-32	8,972	217	8,755	-
TOTALS	<u><u>\$128,204</u></u>	<u><u>\$ 33,869</u></u>	<u><u>\$ 94,335</u></u>	

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 RURAL DEVELOPMENT REVENUE BOND DATED APRIL 8, 1997
 MAY 31, 2019

<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-19				\$ 482,658
05-31-20	\$ 41,796	\$ 23,723	\$ 18,073	464,585
05-31-21	41,796	22,797	18,999	445,586
05-31-22	41,796	21,826	19,970	425,616
05-31-23	41,796	20,804	20,992	404,624
05-31-24	41,796	19,730	22,066	382,558
05-31-25	41,796	18,602	23,194	359,364
05-31-26	41,796	17,414	24,382	334,982
05-31-27	41,796	16,167	25,629	309,353
05-31-28	41,796	14,856	26,940	282,413
05-31-29	41,796	13,477	28,319	254,094
05-31-30	41,796	12,029	29,767	224,327
05-31-31	41,796	10,506	31,290	193,037
05-31-32	41,796	8,905	32,891	160,146
05-31-33	41,796	7,222	34,574	125,572
05-31-34	41,796	5,456	36,343	89,229
05-31-35	41,796	3,594	38,202	51,027
05-31-36	41,796	1,639	40,157	10,870
05-31-37	10,965	95	10,870	-
TOTALS	<u><u>\$ 721,497</u></u>	<u><u>\$ 238,842</u></u>	<u><u>\$ 482,658</u></u>	

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 BUDGETARY COMPARISON SCHEDULE
 FOR YEAR ENDED MAY 31, 2019

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUE:			
Water Revenue	\$ 390,925	\$ 362,844	\$ (28,081)
Sewer Revenue	302,925	244,638	(58,287)
Penalties	12,000	20,004	8,004
Connection Fees	12,000	13,050	1,050
Processing Services	24,000	24,000	-
Other Income	5,600	221	(5,379)
TOTAL OPERATING REVENUE	<u>747,450</u>	<u>664,757</u>	<u>(82,693)</u>
OPERATING EXPENSES:			
Salaries	165,000	193,742	28,742
Depreciation:			
Water Plant	-	24,509	24,509
Sewer Plant	-	67,420	67,420
Rural Plant	-	55,834	55,834
Other	-	15,435	15,435
Maintenance and Repairs:			
Water Plant	100,000	49,266	(50,734)
Sewer Plant	70,000	49,126	(20,874)
Utilities	50,000	35,365	(14,635)
Auditing and Legal	8,500	6,057	(2,443)
Office Supplies and Expense	18,000	18,248	248
Training and Seminars	600	175	(425)
Vehicle Expense	25,000	15,109	(9,891)
Payroll Taxes	16,000	11,478	(4,522)
Insurance	28,000	26,734	(1,266)
Federal Safe Drinking Water Fee	5,100	5,016	(84)
Licenses and Permits	5,900	1,388	(4,512)
Bad Debts	1,200	4,546	3,346
Miscellaneous	1,200	10,649	9,449
TOTAL OPERATING EXPENSES	<u>494,500</u>	<u>590,097</u>	<u>95,597</u>
OPERATING INCOME	<u>252,950</u>	<u>74,660</u>	<u>(178,290)</u>
OTHER INCOME (EXPENSES):			
Interest Income	1,500	6,460	4,960
Interest Expense	-	(29,976)	(29,976)
TOTAL OTHER INCOME	<u>1,500</u>	<u>(23,516)</u>	<u>(25,016)</u>
TRANSFER TO CITY OF GURDON	<u>(75,000)</u>	<u>(111,458)</u>	<u>(6,501)</u>
NET INCOME (LOSS)	<u>\$ 179,450</u>	<u>\$ (60,314)</u>	<u>\$ (209,807)</u>

See Independent Auditors' Report.