

GURDON MUNICIPAL WATER AND SEWER WORKS

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GURDON, ARKANSAS

MAY 31, 2020

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 GURDON, ARKANSAS
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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the City Council,
City of Gurdon, Arkansas

Opinions

We have audited the accompanying financial statements of Gurdon Municipal Water and Sewer Works of Gurdon, Arkansas as of and for the year ended May 31, 2020 and 2019, 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.

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, 2020 and 2019, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gurdon Municipal Water and Sewer Works, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gurdon Municipal Water and Sewer Works' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gurdon Municipal Water and Sewer Works' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gurdon Municipal Water and Sewer Works' ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gurdon Municipal Water and Sewer Works' basic financial statements. The accompanying supplemental information presented herein on pages 18-23 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 September 29, 2022, 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

Arkadelphia, Arkansas

September 29, 2022

GURDON MUNICIPAL WATER AND SEWER WORKS
BALANCE SHEETS
MAY 31, 2020 AND 2019

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	<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
CURRENT ASSETS:			
Cash		\$ 239,588	\$ 274,696
Certificates of Deposit		387,160	418,408
Accounts Receivable		65,319	67,947
Inventory of Materials and Supplies		63,551	57,569
Prepaid Expenses		6,837	3,515
Accrued Interest Receivable		152	156
TOTAL CURRENT ASSETS		<u>762,607</u>	<u>822,291</u>
TOTAL RESTRICTED ASSETS (Schedule II)		<u>156,453</u>	<u>153,144</u>
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		669,263	609,546
		<u>7,266,775</u>	<u>7,207,058</u>
Less: Accumulated Depreciation		(5,082,724)	(4,916,814)
TOTAL PLANT AND EQUIPMENT		<u>2,184,051</u>	<u>2,290,244</u>
TOTAL ASSETS		<u><u>\$ 3,103,111</u></u>	<u><u>\$ 3,265,679</u></u>

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

GURDON MUNICIPAL WATER AND SEWER WORKS
BALANCE SHEETS
MAY 31, 2020 AND 2019

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LIABILITIES AND FUND EQUITY

	2020	2019
CURRENT LIABILITIES:		
Accounts Payable	\$ 15,561	\$ 28,542
Accrued Salaries	1,393	1,373
Accrued Taxes Payable	8,209	8,929
Notes Payable - Current Maturity	3,009	5,063
TOTAL CURRENT LIABILITIES	28,172	43,907
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued Interest Payable	1,492	1,556
Customers' Meter Deposits	102,549	99,294
Rural Development Bonds Payable - Current Maturity	24,619	23,414
TOTAL LIABILITIES PAYABLE FROM RESTRICTED FUNDS	128,660	124,264
 LONG-TERM DEBT:		
Rural Development Bond Payable (1992)	83,381	88,994
Rural Development Bond Payable (1997)	445,586	464,585
First State Bank Note Payable	-	3,009
TOTAL LONG-TERM DEBT	528,967	556,588
 TOTAL LIABILITIES	685,799	724,759
 FUND EQUITY:		
Contributed Capital	2,270,969	2,270,969
Retained Earnings:		
Reserved	27,793	28,880
Unreserved	118,550	241,071
TOTAL FUND EQUITY	2,417,312	2,540,920
 TOTAL LIABILITIES AND FUND EQUITY	\$ 3,103,111	\$ 3,265,679

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, 2020 AND 2019

	2020	2019
OPERATING REVENUE:		
Water Revenue	\$ 355,761	\$ 362,844
Sewer Revenue	252,271	244,638
Penalties	18,213	20,004
Connection Fees	10,975	13,050
Processing Services	24,000	24,000
Other Income	240	221
TOTAL OPERATING REVENUE	661,460	664,757
OPERATING EXPENSES (SCHEDULE I)	613,301	590,098
OPERATING INCOME (LOSS)	48,159	74,659
OTHER INCOME (EXPENSES):		
Interest Earned	8,479	6,460
Interest Expense	(27,556)	(29,976)
TOTAL OTHER INCOME (EXPENSES)	(19,077)	(23,516)
NET INCOME (LOSS)	29,082	51,143
FUND EQUITY, BEGINNING OF YEAR		-
TRANSFERS TO CITY OF GURDON	(152,692)	(111,458)
FUND EQUITY, END OF YEAR	\$ (123,610)	\$ (60,315)

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, 2020 AND 2019

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	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 659,972	\$ 660,101
Cash Paid to Suppliers	(268,307)	(213,993)
Cash Paid to Employees	(197,953)	(193,156)
NET CASH FLOW FROM OPERATING ACTIVITIES	193,712	252,952
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	8,450	6,446
Investment Sales - Certificate of Deposit	35,000	-
Investment Purchases	(3,749)	(5,412)
NET CASH FLOW FROM INVESTING ACTIVITIES	39,701	1,034
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Change in Meter Deposits	3,255	7,863
Transfer to City of Gurdon	(152,692)	(111,458)
NET CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES	(149,437)	(103,595)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Fixed Asset Acquisition	(59,717)	(46,213)
Principal Debt Payment	(28,470)	(27,234)
Interest Payment	(27,620)	(30,036)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(115,807)	(103,483)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(31,831)	46,908
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	342,524	295,616
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 310,693	\$ 342,524

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, 2020 AND 2019

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

	2020	2019
OPERATING INCOME	\$ 48,159	\$ 74,659
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	165,910	163,199
Bad Debts	4,116	4,546
Change in Assets and Liabilities:		
Accounts Receivable	(1,488)	(4,656)
Inventory	(5,982)	2,453
Prepaid Expenses	(3,322)	434
Accounts Payable and Accrued Expenses	(13,681)	12,317
TOTAL ADJUSTMENTS	145,553	178,293
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 193,712	\$ 252,952

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, 2020

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, 2020.

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, 2020

Note 1. Significant Accounting Policies: (Continued)

The System has investments of \$472,466 in bank certificates of deposit. Maturities are as follows:

Maturity Date	Market Value at 5/31/2020
4/22/2021	\$ 85,306
12/23/2020	96,389
9/27/2020	119,967
2/14/2021	107,150
8/27/2011	63,654
	\$ 472,466

Note 2. Current Assets:

The accounts receivable at May 31, 2020 amounting to \$65,319 are for May billings except for \$2,342, which are accounts in arrears.

The materials and supplies inventory in the amount of \$63,551 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, 2020.

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, 2020, compared with those balances at May 31, 2019.

Note 4. Liabilities:

Accounts payable in the amount of \$15,561, reported as a current liability, is composed of operating expenses for May 2020 paid in June 2020.

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, 2020

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, 2020 and 2019 are summarized as follows:

	5/31/2020	5/31/2019
1992 Revenue Bond - Rural Development; payable \$828 monthly including interest at 5%, collateralized by system revenues.	\$ 88,996	\$ 94,335
1997 Revenue Bond - Rural Development; payable \$3,483 monthly including interest at 5%, collateralized by system revenues.	464,590	482,658
	553,586	576,993
Less portion considered current	(24,619)	(23,414)
Total long-term debt	\$ 528,967	\$ 553,579

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, 2020 the outstanding balance due is \$3,009 with principal payments of \$3,009 in 2021, and interest payments \$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, 2020

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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, 2020.

Retained Earnings in the amount of \$146,343 as of May 31, 2020 consists of the accumulated earnings of the Water and Sewer Works of \$118,550 and the excess of restricted assets over liabilities payable from restricted assets of \$27,793.

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, 2020 was \$783,159. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$785,415 before reduction of outstanding items. Financial institutions pledged securities with a fair market value of \$369,230 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, 2020

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, 2020 was 1,280.

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, 2020

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, 2020

Note 10. Capital Assets:

Capital Asset activity for the year ended May 31, 2020 and 2019 was as follows:

	5/31/2019 BALANCE	INCREASES	DECREASES	5/31/2020 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	609,546	59,717	-	669,263
TOTAL CAPITAL ASSETS AT HISTORICAL COST	<u>7,207,058</u>	<u>59,717</u>	<u>-</u>	<u>7,266,775</u>
LESS ACCUMULATED DEPRECIATION:				
Water Plant	(1,354,872)	(24,509)	-	(1,379,381)
Sewer Plant	(1,827,508)	(57,490)	-	(1,884,998)
Rural Plant	(1,232,420)	(55,834)	-	(1,288,254)
Vehicles and Equipment	(502,014)	(28,077)	-	(530,091)
TOTAL DEPRECIATION	<u>(4,916,814)</u>	<u>(165,910)</u>	<u>-</u>	<u>(5,082,724)</u>
NET CAPITAL ASSETS	<u>2,290,244</u>	<u>(106,193)</u>	<u>-</u>	<u>2,290,244</u>
	5/31/2018 BALANCE	INCREASES	DECREASES	5/31/2020 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	<u>7,160,845</u>	<u>46,213</u>	<u>-</u>	<u>7,207,058</u>
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	<u>(4,753,616)</u>	<u>(163,198)</u>	<u>-</u>	<u>(4,916,814)</u>
NET CAPITAL ASSETS	<u>2,407,229</u>	<u>(116,985)</u>	<u>-</u>	<u>2,290,244</u>

TURNER, RODGERS, MANNING & PLYLER, PLLC
Certified Public Accountants

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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, 2020, 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 September 30, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the of Gurdon Municipal Water and Sewer Works' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the of Gurdon Municipal Water and Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
September 29, 2022

GURDON MUNICIPAL WATER AND SEWER WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2020

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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, 2020 AND 2019

SCHEDULE I
 Page 19

	2020	2019
OPERATING EXPENSES:		
Salaries	\$ 197,973	\$ 193,742
Depreciation:		
Water Plant	24,509	24,509
Sewer Plant	57,490	67,420
Rural Plant	55,834	55,834
Other	28,077	15,435
Maintenance and Repairs:		
Water Plant	53,072	49,266
Sewer Plant	52,806	49,126
Utilities	46,156	35,365
Auditing and Legal	6,674	6,057
Office Supplies and Expense	10,540	18,248
Training and Seminars	300	175
Vehicle Expense	19,078	15,109
Payroll Taxes	14,108	11,478
Insurance	29,882	26,734
Federal Safe Drinking Water Fee	5,016	5,016
Licenses and Permits	975	1,388
Bad Debts	4,116	4,546
Miscellaneous	6,695	10,650
TOTAL OPERATING EXPENSES	\$ 613,301	\$ 590,098

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULES OF RESTRICTED ASSETS
 MAY 31, 2020 AND 2019

	2020	2019
DEPRECIATION FUND:		
Cash	\$ 53,904	\$ 53,850
TOTAL DEPRECIATION FUND	53,904	53,850
 CUSTOMERS' METER DEPOSIT FUND:		
Cash	17,201	13,979
Certificates of Deposit	85,306	85,306
Accrued Interest Receivable	42	9
TOTAL CUSTOMERS' METER DEPOSIT FUND	102,549	99,294
 TOTAL RESTRICTED ASSETS	 \$ 156,453	 \$ 153,144

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULE OF OPERATING INCOME BY DEPARTMENT
 FOR YEAR ENDED MAY 31, 2020

SCHEDULE III
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	<u>WATER</u> <u>DEPARTMENT</u>	<u>SEWER</u> <u>DEPARTMENT</u>
OPERATING INCOME:		
Water and Sewer Service	\$ 355,761	\$ 252,271
Penalties	6,010	12,203
Connection Fee	10,975	
Processing Services	24,000	
Other Income	240	
TOTAL OPERATING INCOME	396,986	264,474
OPERATING EXPENSES:		
Salaries	98,986	98,987
Depreciation	89,608	76,302
Maintenance and Repairs	53,072	52,806
Utilities	15,231	30,925
Auditing and Legal	3,337	3,337
Office Supplies and Expense	3,478	7,062
Training Seminars	300	-
Vehicle Expense	6,296	12,782
Payroll Taxes	7,054	7,054
Insurance	9,861	20,021
Federal Safe Drinking Water Fee	5,016	-
Licenses and Permits	975	-
Bad Debts	2,758	1,358
Miscellaneous	3,348	3,347
TOTAL OPERATING EXPENSES	299,320	313,981
INCOME (LOSS) FROM OPERATIONS	\$ 97,666	\$ (49,507)

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, 2020

<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-20				\$ 88,996
05-31-21	\$ 9,936	4,321	5,615	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	9,936	217	8,755	-
 TOTALS	 <u>\$119,232</u>	 <u>\$ 29,272</u>	 <u>\$ 88,996</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, 2020

SCHEDULE V
 Page 23

<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-20				\$ 464,590
05-31-21	41,796	22,792	19,004	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>\$ 679,701</u>	<u>\$ 215,114</u>	<u>\$ 464,590</u>	

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 BUDGETARY COMPARISON SCHEDULE
 FOR YEAR ENDED MAY 31, 2020

SCHEDULE VI
 Page 24

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUE:			
Water Revenue	\$ 390,925	\$ 355,761	\$ (35,164)
Sewer Revenue	302,925	252,271	(50,654)
Penalties	12,000	18,213	6,213
Connection Fees	12,000	10,975	(1,025)
Processing Services	24,000	24,000	-
Other Income	5,600	240	(5,360)
TOTAL OPERATING REVENUE	<u>747,450</u>	<u>661,460</u>	<u>(85,990)</u>
OPERATING EXPENSES:			
Salaries	165,000	197,973	32,973
Depreciation:			
Water Plant	-	24,509	24,509
Sewer Plant	-	57,490	57,490
Rural Plant	-	55,834	55,834
Other	-	28,077	28,077
Maintenance and Repairs:			
Water Plant	100,000	53,072	(46,928)
Sewer Plant	100,000	52,806	(47,194)
Utilities	50,000	46,156	(3,844)
Auditing and Legal	8,500	6,674	(1,826)
Office Supplies and Expense	18,000	10,540	(7,460)
Training and Seminars	600	300	(300)
Vehicle Expense	25,000	19,078	(5,922)
Payroll Taxes	16,000	14,108	(1,892)
Insurance	28,000	29,882	1,882
Federal Safe Drinking Water Fee	5,100	5,016	(84)
Licenses and Permits	5,900	975	(4,925)
Bad Debts	-	4,116	4,116
Miscellaneous	1,200	6,695	5,495
TOTAL OPERATING EXPENSES	<u>523,300</u>	<u>613,301</u>	<u>90,001</u>
OPERATING INCOME	<u>224,150</u>	<u>48,159</u>	<u>(175,991)</u>
OTHER INCOME (EXPENSES):			
Interest Income	1,500	8,479	6,979
Interest Expense	-	(27,556)	(27,556)
TOTAL OTHER INCOME	<u>1,500</u>	<u>(19,077)</u>	<u>(20,577)</u>
TRANSFER TO CITY OF GURDON	<u>(75,000)</u>	<u>(152,692)</u>	<u>(6,501)</u>
NET INCOME (LOSS)	<u>\$ 150,650</u>	<u>\$ (123,610)</u>	<u>\$ (203,069)</u>

See Independent Auditors' Report.