

GURDON MUNICIPAL WATER AND SEWER WORKS



GURDON, ARKANSAS

MAY 31, 2021

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

City Council
Gurdon, Arkansas
Gurdon Municipal Water and Sewer Works

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of Gurdon Municipal Water and Sewer Works, a component unit of the City of Gurdon, Arkansas, as of and for the years ended May 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise 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 financial position of Gurdon Municipal Water and Sewer Works as of May 31, 2021 and 2020, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 clear 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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. 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 and *Government 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 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 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.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above 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, 2021 and 2020, 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.

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 (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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information presented herein on pages 19-23 are presented for purposes of additional analysis and are not a required part of the 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 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 August 28, 2024, on our consideration of 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 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

August 28, 2024

GURDON MUNICIPAL WATER AND SEWER WORKS
 STATEMENTS OF NET POSITION
 MAY 31, 2021 AND 2020

	<u>ASSETS</u>		<u>2021</u>	<u>2020</u>
CURRENT ASSETS:				
Cash		\$	185,484	\$ 239,588
Certificates of Deposit			353,864	387,160
Accounts Receivable			62,972	65,319
Inventory of Materials and Supplies			64,011	63,551
Prepaid Expenses			6,306	6,837
Accrued Interest Receivable			487	152
TOTAL CURRENT ASSETS			<u>673,124</u>	<u>762,607</u>
TOTAL RESTRICTED ASSETS (Schedule II)			<u>159,609</u>	<u>156,453</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			2,839,032	2,696,784
Rural Plant, Extensions, and Improvements			2,233,344	2,233,344
Vehicles and Equipment			735,878	669,263
			<u>7,475,638</u>	<u>7,266,775</u>
Less: Accumulated Depreciation			(5,251,919)	(5,082,724)
TOTAL PLANT AND EQUIPMENT			<u>2,223,719</u>	<u>2,184,051</u>
TOTAL ASSETS			<u><u>\$ 3,056,452</u></u>	<u><u>\$ 3,103,111</u></u>

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

GURDON MUNICIPAL WATER AND SEWER WORKS
STATEMENTS OF NET POSITION
MAY 31, 2021 AND 2020

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LIABILITIES AND NET POSITION

	2021	2020
CURRENT LIABILITIES:		
Accounts Payable	\$ 23,680	\$ 15,561
Accrued Salaries	2,355	1,393
Accrued Taxes Payable	8,586	8,209
Notes Payable - Current Maturity	7,129	3,009
TOTAL CURRENT LIABILITIES	41,750	28,172
 LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Accrued Interest Payable	1,427	1,492
Customers' Meter Deposits	105,651	102,549
Rural Development Bonds Payable - Current Maturity	25,866	24,619
TOTAL LIABILITIES PAYABLE FROM RESTRICTED FUNDS	132,944	128,660
 LONG-TERM DEBT:		
Rural Development Bond Payable (1992)	77,495	83,381
Rural Development Bond Payable (1997)	425,697	445,586
First State Bank Note Payable	29,825	-
TOTAL LONG-TERM DEBT	533,017	528,967
 TOTAL LIABILITIES	707,711	685,799
 NET POSITION:		
Invested Capital Assets, Net of Related Debt	6,909,626	6,710,180
Restricted	52,531	52,412
Unrestricted	(4,613,416)	(4,345,280)
TOTAL NET POSITION	2,348,741	2,417,312
 TOTAL LIABILITIES AND NET POSITION	\$ 3,056,452	\$ 3,103,111

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

GURDON MUNICIPAL WATER AND SEWER WORKS
 STATEMENTS OF REVENUE, EXPENSES AND
 CHANGES IN NET POSITION
 FOR YEARS ENDED MAY 31, 2021 AND 2020

	2021	2020
OPERATING REVENUE:		
Water Revenue	\$ 361,924	\$ 355,761
Sewer Revenue	257,334	252,271
Penalties	15,030	18,213
Connection Fees	10,675	10,975
Processing Services	24,000	24,000
Other Income	12,859	240
TOTAL OPERATING REVENUE	681,822	661,460
OPERATING EXPENSES (SCHEDULE I)	656,021	613,301
OPERATING INCOME	25,801	48,159
OTHER INCOME (EXPENSES):		
Interest Earned	4,919	8,479
Interest Expense	(24,291)	(27,556)
TOTAL OTHER INCOME (EXPENSES)	(19,372)	(19,077)
NET INCOME	6,429	29,082
NET POSITION AT BEGINNING OF YEAR	2,417,312	2,540,922
TRANSFERS TO CITY OF GURDON	(75,000)	(152,692)
NET POSITION AT END OF YEAR	\$ 2,348,741	\$ 2,417,312

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, 2021 AND 2020

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	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 684,169	\$ 659,972
Cash Paid to Suppliers	(272,275)	(268,307)
Cash Paid to Employees	(205,020)	(197,953)
NET CASH FLOW FROM OPERATING ACTIVITIES	206,874	193,712
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	4,607	8,450
Investment Sales - Certificate of Deposit	37,612	35,000
Investment Purchases	(4,318)	(3,749)
NET CASH FLOW FROM INVESTING ACTIVITIES	37,901	39,701
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Change in Meter Deposits	3,102	3,255
Transfer to City of Gurdon	(75,000)	(152,692)
NET CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES	(71,898)	(149,437)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from Debt	37,462	-
Fixed Asset Acquisition	(208,863)	(59,717)
Principal Debt Payment	(28,045)	(28,470)
Interest Payment	(24,356)	(27,620)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(223,802)	(115,807)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(50,925)	(31,831)
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	310,693	342,524
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 259,768	\$ 310,693

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, 2021 AND 2020

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

	<u>2021</u>	<u>2020</u>
OPERATING INCOME	\$ 25,801	\$ 48,159
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	169,196	165,910
Bad Debts	-	4,116
Change in Assets and Liabilities:		
Accounts Receivable	2,347	(1,488)
Inventory	(460)	(5,982)
Prepaid Expenses	531	(3,322)
Accounts Payable and Accrued Expenses	9,459	(13,681)
TOTAL ADJUSTMENTS	<u>181,073</u>	<u>145,553</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 206,874</u>	<u>\$ 193,712</u>

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, 2021

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.

The Water Works capitalizes all expenditures in excess of \$2,000 and with a useful life of more than one year. Donated fixed assets are valued at their estimated fair market value on the date donated. Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. 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. No current year transfers were required or made as Debt Service Reserves were fully funded on May 31, 2021 and 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, 2021

Note 1. Significant Accounting Policies: (Continued)

The System has investments of \$439,170 in bank certificates of deposit. Maturities are as follows:

Maturity Date	Market Value at 5/31/2021
10/22/2022	\$ 85,306
12/21/2021	62,126
9/30/2022	119,967
12/14/2021	108,117
8/17/2021	63,654
	\$ 439,170

Management has evaluated subsequent events through August 28, 2024, the date the financial statements were available for issuance.

Note 2. Current Assets:

The accounts receivable at May 31, 2021 amounting to \$62,972 are for May billings except for \$2,169, which are accounts in arrears.

The materials and supplies inventory in the amount of \$64,011 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, 2021.

Prepaid expenses consists of the unexpired portion of payments for insurance coverage and a credit balance for amounts prepaid to the Arkansas Department of Workforce Services.

Note 3. Restricted Assets:

Schedule II of this report shows a schedule of restricted assets at May 31, 2021, compared with those balances at May 31, 2020.

Note 4. Liabilities:

Accounts payable in the amount of \$23,680, reported as a current liability, is composed of operating expenses for May 2021 paid in June 2021.

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

GURDON MUNICIPAL WATER AND SEWER WORKS
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2021

Note 5. Bonded Debt: (Continued)

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.

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, 2021 and 2020 are summarized as follows:

	5/31/2021	5/31/2020
1992 Revenue Bond - Rural Development; payable \$828 monthly including interest at 5%, collateralized by system revenues.	\$ 83,395	\$ 88,996
1997 Revenue Bond - Rural Development; payable \$3,483 monthly including interest at 5%, collateralized by system revenues.	445,663	464,590
	529,058	576,993
Less portion considered current	(25,866)	(24,619)
Total long-term debt	\$ 503,192	\$ 528,967

Note 6. Notes Payable:

The System entered into a loan agreement with First State Bank on April 1, 2021. Proceeds from the loan were \$37,462, at 2.6% interest. Monthly payments are set at \$667.14 to be paid over a period of 60 months. On May 31, 2021 the outstanding balance due is \$36,954. Principal payments for the next five years are:

	Payment Amount	Loan Interest	Principal
2022	\$ 8,006	\$ 877	\$ 7,129
2023	8,006	689	7,317
2024	8,006	496	7,510
2025	8,006	299	7,707
2026	7,387	96	7,291
Total	\$ 39,411	\$ 2,457	\$ 36,954

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2021

Note 7. 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, 2021 was \$703,396. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$700,700 before reduction of outstanding items. Financial institutions pledged securities with a fair market value of \$283,073 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 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.

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2021

Note 8. 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, 2021 was 1,278.

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
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

GURDON MUNICIPAL WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2021

Note 8. General: (Continued)

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, 2021

Note 9. Capital Assets:

Capital Asset activity for the year ended May 31, 2021 and 2020 was as follows:

	5/31/2020 BALANCE	INCREASES	DECREASES	5/31/2021 BALANCE
CAPITAL ASSETS:				
Land	\$ 20,115	\$ -	\$ -	\$ 20,115
Water Plant	1,647,269	-	-	1,647,269
Sewer Plant	2,696,784	142,248	-	2,839,032
Rural Plant	2,233,344	-	-	2,233,344
Vehicles and Equipment	669,263	66,615	-	735,878
TOTAL CAPITAL ASSETS AT HISTORICAL COST	7,266,775	208,863	-	7,475,638
LESS ACCUMULATED DEPRECIATION:				
Water Plant	(1,379,381)	(24,509)	-	(1,403,890)
Sewer Plant	(1,884,998)	(56,896)	-	(1,941,894)
Rural Plant	(1,288,254)	(55,834)	-	(1,344,088)
Vehicles and Equipment	(530,091)	(31,956)	-	(562,047)
TOTAL DEPRECIATION	(5,082,724)	(169,195)	-	(5,251,919)
NET CAPITAL ASSETS	2,184,051	39,668	-	2,223,719
	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	7,207,058	59,717	-	7,266,775
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	(4,916,814)	(165,910)	-	(5,082,724)
NET CAPITAL ASSETS	2,290,244	(106,193)	-	2,184,051

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*

City Council
Gurdon, Arkansas
Gurdon Municipal Water and Sewer Works

We have audited, in accordance with the 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, 2021, and the related notes to the financial statements, and have issued our report thereon dated August 28, 2024.

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 the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 Gurdon Municipal Water and Sewer Works' 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*.

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 & Pyles, PLLC

Arkadelphia, Arkansas

August 28, 2024

GURDON MUNICIPAL WATER AND SEWER WORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2021

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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, 2021 AND 2020

SCHEDULE I
 Page 19

	2021	2020
OPERATING EXPENSES:		
Salaries	\$ 205,982	\$ 197,973
Depreciation:		
Water Plant	24,509	24,509
Sewer Plant	56,897	57,490
Rural Plant	55,834	55,834
Other	31,956	28,077
Maintenance and Repairs:		
Water Plant	58,952	53,072
Sewer Plant	65,151	52,806
Utilities	48,186	46,156
Auditing and Legal	7,453	6,674
Office Supplies and Expense	22,439	10,540
Training and Seminars	-	300
Vehicle Expense	16,184	19,078
Payroll Taxes	16,993	14,108
Insurance	25,102	29,882
Federal Safe Drinking Water Fee	5,016	5,016
Licenses and Permits	7,434	975
Bad Debts	-	4,116
Miscellaneous	7,933	6,695
TOTAL OPERATING EXPENSES	\$ 656,021	\$ 613,301

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULES OF RESTRICTED ASSETS
 MAY 31, 2021 AND 2020

	2021	2020
DEPRECIATION FUND:		
Cash	\$ 53,958	\$ 53,904
TOTAL DEPRECIATION FUND	53,958	53,904
CUSTOMERS' METER DEPOSIT FUND:		
Cash	20,326	17,201
Certificates of Deposit	85,306	85,306
Accrued Interest Receivable	19	42
TOTAL CUSTOMERS' METER DEPOSIT FUND	105,651	102,549
TOTAL RESTRICTED ASSETS	\$ 159,609	\$ 156,453

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 SCHEDULE OF OPERATING INCOME BY DEPARTMENT
 FOR YEAR ENDED MAY 31, 2021

SCHEDULE III
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	<u>WATER</u> <u>DEPARTMENT</u>	<u>SEWER</u> <u>DEPARTMENT</u>
OPERATING INCOME:		
Water and Sewer Service	\$ 361,924	\$ 257,334
Penalties	5,005	10,025
Connection Fee	10,675	-
Processing Services	24,000	-
Other Income	4,684	8,175
TOTAL OPERATING INCOME	406,288	275,534
OPERATING EXPENSES:		
Salaries	102,991	102,991
Depreciation	90,889	78,307
Maintenance and Repairs	58,952	65,151
Utilities	15,901	32,285
Auditing and Legal	3,727	3,726
Office Supplies and Expense	7,405	15,034
Vehicle Expense	5,341	10,843
Payroll Taxes	8,497	8,496
Insurance	8,284	16,818
Federal Safe Drinking Water Fee	5,016	-
Licenses and Permits	7,434	-
Miscellaneous	3,967	3,966
TOTAL OPERATING EXPENSES	318,404	337,617
INCOME (LOSS) FROM OPERATIONS	\$ 87,884	\$ (62,083)

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, 2021

SCHEDULE IV
 Page 22

<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-21				83,395
05-31-22	9,936	4,035	5,900	77,495
05-31-23	9,936	3,733	6,203	71,292
05-31-24	9,936	3,415	6,521	64,771
05-31-25	9,936	3,083	6,853	57,918
05-31-26	9,936	2,731	7,205	50,713
05-31-27	9,936	2,363	7,573	43,140
05-31-28	9,936	1,976	7,960	35,180
05-31-29	9,936	1,568	8,368	26,812
05-31-30	9,936	1,140	8,796	18,016
05-31-31	9,936	690	9,246	8,770
05-31-32	9,936	217	8,770	-
TOTALS	<u><u>\$109,296</u></u>	<u><u>\$ 24,951</u></u>	<u><u>\$ 83,395</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, 2021

SCHEDULE V
 Page 23

<u>PAYMENT DATE</u>	<u>PAYMENT AMOUNT</u>	<u>LOAN INTEREST</u>	<u>PRINCIPAL</u>	<u>PRINCIPAL BALANCE</u>
05-31-21				445,663
05-31-22	41,796	21,826	19,966	425,697
05-31-23	41,796	20,804	20,992	404,705
05-31-24	41,796	19,730	22,066	382,639
05-31-25	41,796	18,602	23,194	359,445
05-31-26	41,796	17,414	24,382	335,063
05-31-27	41,796	16,167	25,629	309,434
05-31-28	41,796	14,856	26,940	282,494
05-31-29	41,796	13,477	28,319	254,175
05-31-30	41,796	12,029	29,767	224,408
05-31-31	41,796	10,506	31,290	193,118
05-31-32	41,796	8,905	32,891	160,227
05-31-33	41,796	7,222	34,574	125,653
05-31-34	41,796	5,456	36,343	89,310
05-31-35	41,796	3,594	38,202	51,108
05-31-36	41,796	1,639	40,157	10,951
05-31-37	10,965	95	10,951	-
TOTALS	<u>\$ 637,905</u>	<u>\$ 192,322</u>	<u>\$ 445,663</u>	

See Independent Auditors' Report.

GURDON MUNICIPAL WATER AND SEWER WORKS
 BUDGETARY COMPARISON SCHEDULE
 FOR YEAR ENDED MAY 31, 2021

SCHEDULE VI
 Page 24

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
OPERATING REVENUE:			
Water Revenue	\$ 390,925	\$ 361,924	\$ (29,001)
Sewer Revenue	302,925	257,334	(45,591)
Penalties	12,000	15,030	3,030
Connection Fees	12,000	10,675	(1,325)
Processing Services	24,000	24,000	-
Other Income	7,100	12,859	5,759
TOTAL OPERATING REVENUE	<u>748,950</u>	<u>681,822</u>	<u>(67,128)</u>
OPERATING EXPENSES:			
Salaries	165,000	\$ 205,982	40,982
Depreciation:			
Water Plant	-	24,509	24,509
Sewer Plant	-	56,897	56,897
Rural Plant	-	55,834	55,834
Other	-	31,956	31,956
Maintenance and Repairs:			
Water Plant	100,000	58,952	(41,048)
Sewer Plant	100,000	65,151	(34,849)
Utilities	50,000	48,186	(1,814)
Auditing and Legal	8,500	7,453	(1,047)
Office Supplies and Expense	18,000	22,439	4,439
Training and Seminars	600	-	(600)
Vehicle Expense	25,000	16,184	(8,816)
Payroll Taxes	16,000	16,993	993
Insurance	28,000	25,102	(2,898)
Federal Safe Drinking Water Fee	5,100	5,016	(84)
Licenses and Permits	5,900	7,434	1,534
Bad Debts	1,200	-	(1,200)
Miscellaneous	1,200	7,933	6,733
TOTAL OPERATING EXPENSES	<u>524,500</u>	<u>656,021</u>	<u>131,521</u>
OPERATING INCOME (LOSS)	<u>224,450</u>	<u>25,801</u>	<u>(198,649)</u>
OTHER INCOME (EXPENSES):			
Interest Income	-	4,919	4,919
Interest Expense	-	(24,291)	(24,291)
TOTAL OTHER INCOME	<u>-</u>	<u>(19,372)</u>	<u>(19,372)</u>
TRANSFER TO CITY OF GURDON	<u>(75,000)</u>	<u>(75,000)</u>	<u>(6,501)</u>
NET INCOME (LOSS)	<u>\$ 149,450</u>	<u>\$ (68,571)</u>	<u>\$ (224,522)</u>

See Independent Auditors' Report.