WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2021

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

DECEMBER 31, 2021

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INDEPENDENT AUDITORS' REPORT

City Council of Guy, Arkansas
Water System of the City of Guy, Arkansas
Guy, Arkansas

Opinions

We have audited the accompanying financial statements of the business-type activities of the Water System of the City of Guy, Arkansas (the Entity) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the System's 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 the business-type activities of the Water System of the City of Guy, Arkansas, as of December 31, 2021, and the respective changes in financial position, and, where applicable, cash flow thereof for the year 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 the Water System of the City of Guy, Arkansas 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 Water System of the City of Guy, Arkansas's 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 Responsibility 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 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 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 the Water System of the City of Guy, Arkansas's 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 Water System of the City of Guy, Arkansas's 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 of the Water System of the City of Guy, Arkansas, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the System. They do not purport to, and do not present fairly the financial position of the City of Guy, Arkansas as of December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 pages 4 - 5 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water System of the City of Guy, Arkansas's basic financial statements. The accompanying supplemental information as indicated in the table of contents is presented for purposes of additional analysis and is 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 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 October 21, 2022, on our consideration of the Water System of the City of Guy, Arkansas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Water System of the City of Guy, Arkansas's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water System of the City of Guy, Arkansas's internal control over financial reporting and compliance.

Conner & Sartain

October 21, 2022
Conway, Arkansas

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
P.O. Box 12
Guy, Arkansas 72601
Management's Discussion and Analysis
For the year ended December 31, 2021

The Water System of the City of Guy, Arkansas's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the System's financial activity, (c) identify changes in the System's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

Overview of the Financial Statements

The financial statements report information about the System using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the System's overall financial status. The basic financial statements are comprised of only two components: 1) enterprise or proprietary fund financial statements and 2) notes to the financial statements.

The Statements of Net Position present information comprising all of the System's assets and liabilities with the difference being the fund balances, reported as net position. The Statements of Net Position provide for a way to measure the financial health of the System by providing a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the entity.

The Statements of Revenues, Expenses, and Changes in Net Position report information regarding the change in net position during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operating, investing and financing activities. The Statements of Cash Flows explain how cash is managed, received and used.

The notes to the financial statements are essential to developing a full understanding of the data provided in the financial statements.

Financial Analysis of the System

The assets of the System exceeded its liabilities as of December 31, 2021 by $1,006,464 (net position). Of this amount, $146,410 (unrestricted fund balance) may be used to meet the system's ongoing obligations to customers and creditors.

Total assets amounted to $1,814,806, consisting primarily of fixed assets in the amount of $1,371,120. Total assets decreased during 2021 by $23,094, primarily as a result of depreciation of fixed assets amounting to $65,217, combined with disposals of fixed assets and related accumulated depreciation amounting to $6,428, additions of fixed assets amounting to $59,732, and netted with an increase in restricted cash amounting to $22,665.

Total liabilities amounted to $808,342 consisting primarily of outstanding debt obligations of $696,978. The System's total debt decreased $80,026 during 2021.

Financial Analysis of the System (Continued)

Total net position amounted to $1,006,464 consisting of net assets invested in capital assets, net of related debt amounting to $674,142 and unrestricted net assets amounting to $146,410. The System's total net position increased $56,932 during 2021.

The System's total revenues were $696,753 amounting to an increase of $24,302 or 3.61% increase from the prior year. Operating expenses amounted to $611,487, which was an increase of $64,828 or 11.86% increase from the prior year. Other income and expenses amounted to a net expense of $28,334 consisting of mostly interest expense amounting to $27,113, netted by interest income of $949 and loss on sale of assets of $2,170. Other income and expense had a decrease of the net expenses of $1,311 or 4.42% decrease from the prior year. The overall change in net position for the year was an increase of $56,932. This amounts to a decrease of $39,215 or 40.79% decrease from the prior year increase. This results in an ending net position of $1,006,464.

Economic Factors

The operating revenues and expenditures for the year ended December 31, 2021, were consistent with the prior year and met management's expectations. As a result, no extraordinary economic factors were noted.

Requests for Information

This financial report is designed to provide a general overview of the Water System of the City of Guy, Arkansas's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to:

Water System of the City of Guy, Arkansas
P.O. Box 12
Guy, Arkansas 72601

FINANCIAL SECTION

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

STATEMENT OF NET POSITION

DECEMBER 31, 2021

ASSETS

	2021
Current Assets:	
Cash and cash equivalents	$ 173,428
Accounts receivable - water	84,348
Total Current Assets	257,776
Restricted Assets - Note 3:	
Cash and cash equivalents	185,910
Total Restricted Assets	185,910
Capital Assets - Note 4:	
Property, plant, and equipment	2,312,501
	2,312,501
Less: Accumulated depreciation	(941,381)
Total Capital Assets	1,371,120
Total Assets	$ 1,814,806

The accompanying notes are an integral part of the financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

STATEMENT OF NET POSITION

DECEMBER 31, 2021

LIABILITIES AND NET POSITION

	2021
Current Liabilities:	
Accounts payable	$ 25,820
Accrued interest payable	2,625
Accrued payroll liabilities	10,443
Current maturities of long-term debt	85,703
Total Current Liabilities	124,591
Long-Term Debt:	
Notes and bonds payable	696,978
Less: Current maturities above	(85,703)
Total Long-Term Debt	611,275
Other Liabilities:	
Customer meter deposits and prepaid connection fees	72,476
Total Other Liabilities	72,476
Total Liabilities	808,342
Net Position:	
Invested in capital assets, net of related debt	674,142
Restricted for:	
Debt service	-
Meter deposits	73,447
Depreciation reserve	112,465
Unrestricted	146,410
Total Net Position	$ 1,006,464

The accompanying notes are an integral part of the financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2021

	2021
Operating Revenues:	
Water revenues	$ 637,240
Connection fees	28,517
Inspection fees	1,600
Other revenue	29,396
Total Operating Revenues	696,753
Operating Expenses:	
Water purchases	248,251
Salaries	122,419
Road bore	12,700
Utilities	13,559
Equipment repairs and maintenance	54,365
Insurance	9,198
Payroll taxes	13,433
Sales tax	43,645
Professional fees	7,180
Dues	5,999
Other fees expense	1,472
Vehicle operation and repair	4,747
Office supplies and postage	8,657
Travel	645
Depreciation expense	65,217
Total Expenses	611,487
Operating Income (Loss)	85,266
Other Income (Expenses):	
Interest income	949
Gain (loss) on sale of assets	(2,170)
Interest expense	(27,113)
Total Other Income (Expenses)	(28,334)
Change in Net Position	$ 56,932

The accompanying notes are an integral part of the financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED DECEMBER 31, 2021

	Invested in Capital Assets	Restricted Net Position	Unrestricted Net Position	Total
Total Net Position - 12/31/20	613,795	171,550	164,187	949,532
Change in capital assets net of debt	60,347	-	(60,347)	-
Change in net position	-	14,362	42,570	56,932
Total Net Position - 12/31/21	$ 674,142	$ 185,912	$ 146,410	$ 1,006,464

The accompanying notes are an integral part of the financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2021

	2021
Cash Flows from Operating Activities:	
Cash received from customers	$ 698,879
Cash paid to suppliers	(420,358)
Cash paid to employees	(122,419)
Net of customer deposits received (returned)	2,963
Net Cash Provided (Used) by Operating Activities	159,065
Cash Flows from Capital and Related Financing Activities:	
Acquisition of fixed assets	(59,732)
Contribuiton in aid of construction	18,000
Proceeds from long-term debt	-
Principal paid on long-term debt	(86,002)
Interest paid on debt	(27,593)
Net Cash Provided (Used) by Capitol and Related Financing Activities	(155,327)
Cash Flows from Investing Activities:	
Interest income	949
Net Cash Provided (Used) by Investing Activities	949
Increase (Decrease) in Cash	4,687
Cash - Beginning of Year	354,651
Cash - End of Year	$ 359,338
Reconcilation of Operating Income to Net Cash Provided by Operating Activities:	
Cash Flows from Operating Activities:	
Operating income	$ 85,266
Adjustments to Reconcile Net Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation expense	65,217
(Increase) decrease in accounts receivable	2,126
Increase (decrease) in accounts payable	57
Increase (decrease) in accrued payroll payable	3,436
Increase (decrease) in customer meter deposits	2,963
Net Cash Provided (Used) by Operating Activities	$ 159,065

The accompanying notes are an integral part of the financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Entity is the business-type activity of the local government, the City of Guy, Arkansas, organized to provide utility services.

Specific Accounting Policies

The following is a summary of significant accounting policies:

Fund Accounting

The accounts of the Entity are organized on the basis of funds or account groups, each of which is considered to be a separate accounting unit. The operations of each fund are reported as a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into one generic fund type (proprietary) and the following broad fund category:

Enterprise Fund - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs and expenses (including depreciation) of providing goods or services to the general public are financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The accounting records of the Entity are maintained on the accrual basis. Revenues are recognized when they are earned; expenses are recognized when they are incurred. The Entity does not utilize encumbrance accounting.

Cash and Cash Equivalents

The Entity considers all highly liquid investments stemming from unrestricted cash with a maturity of three months or less to be cash.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Concentrations of Credit Risk

Financial instruments that potentially subject the Entity to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Entity places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Entity's customer base. At December 31, 2021, the Entity had no significant concentrations of credit risk.

Accounts Receivable

Accounts receivable consist of amounts due for water sales and various miscellaneous charges. Meter deposits are considered to adequately cover past due accounts; therefore, no allowance for doubtful accounts has been recorded. There was no bad debt expense for the year ended December 31, 2021.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. During construction, interest expenditures are capitalized. Subsequent to development, interest expenditures are recognized as incurred.

Depreciation of all exhaustible fixed assets used is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	Years
Water and sewer systems	9-40
Buildings and improvements	15-40
Equipment	3-10
Construction in progress	Depreciable upon completion
Land	Indefinite

Income Taxes

Because the Entity is classified as a component of a local government, it is not subject to federal or state income taxes.

Compensated Absences

Employees of the Entity are entitled to paid vacations, sick days, and other time off depending on job classification, length of service, and other factors. The Entity has accrued a liability for vacation pay, which has been earned but not taken by employees.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Budget

Enterprise Fund service delivery levels are determined by the extent of consumer demand. Because Enterprise Fund revenues and expenses fluctuate with changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons and, accordingly, these comparisons have not been included.

Concentration of Vendor Risk

Purchases for the year ended December 31, 2021 include amounts from a major supplier that accounted for 100% of the water purchased by the Entity. Management believes no significant risk is present under this arrangement.

Customer Deposits

A security for payment of bills, the System requires a deposit from customers. No interest is paid on such deposits.

Revenue Recognition

The System's revenue is derived primarily from water. Revenue is recognized on the accrual basis and is recorded as services are provided. Operating revenues result from providing services in connections with the principal ongoing operations. Non-operating revenues represent all other revenue not meeting this definition. Accounts receivable and revenues reported on the System's financial statements include an estimate of charges for services provided but unbilled at year end.

Sales Taxes

Sales taxes charged to the System's customers are recorded as revenue when received. An expense is then recorded when these amounts are remitted to the appropriate taxing authority. Sales tax expense is a component of operating expenses.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stock, mutual funds and United States Treasury obligations. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. The Entity did not hold any securities or have any Level 2 or Level 3 activities as of December 31, 2021.

Other Financial Instruments

The following methods and assumptions were used by the Department in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term investments, and promises to give due in less than one year: The carrying amounts reported in the balance sheets approximate fair values because of the short maturities of those instruments.

Long-term debt: The fair value of the notes and bonds payable is based on its carrying amount. The Entity has executed a security agreement with its lender which established a lien on all structures, improvements, and the distribution system, and pledges revenue to assure payment of principal and interest on the indebtedness until paid.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED):

Collateralization of Cash Balances

	2021
Cash in Bank, Fully Insured by FDIC	$ 400,026
Cash in Bank, Collateralized	-
Cash in Bank, Uninsured, Uncollateralized	20,500
	$ 420,526

NOTE 3 - RESTRICTED CASH:

Under the terms of bond ordinances, certain restricted funds must be maintained at December 31, 2021, as follows:

	2021	2020
USDA-RD Debt Service Reserve and Water Depreciation Fund	$ -	$ 3,270
Arkansas Natural Resources Commission Bond Fund, Debt Service Reserve and Depreciation Fund	112,463	90,462
Other Restricted Assets:		
Customer meter deposits and pre-paid connection fees	73,447	69,513
Total Restricted Funds	$ 185,910	$ 163,245

USDA-RD debt service reserve funds were created for the purpose of providing funds for the payment of the principal and interest on the USDA-RD loans if the required monthly principal and interest payments to USDA-RD loans are insufficient at any time. The USDA-RD loan was paid off during the year ended December 31, 2021, so these funds have been released from restriction.

Arkansas Natural Resources Commission reserve funds were created for the purpose of providing funds for the replacement of the project. The Entity must fund a depreciation reserve account in the amount of $200,000 to be accumulated at the rate of $240 per month. Also, the Entity must maintain a meter construction account that must have a balance of 3% of gross revenue until the balance reaches $50,000. Total required reserves for loan totals $112,463 for the year ended December 31, 2021.

Customer meter deposits are deposits made by the customer when meters are installed for their use. Prepayments of connection fees are being paid by customers for connection rights to new line extensions not yet available.

Restricted assets consist of cash and savings accounts.

NOTE 4 - CAPITAL ASSETS:

A summary of changes in capital assets for the year ended December 31, 2021, is presented below:

	Balance December 31, 2020	Increases	Decreases	Balance December 31, 2021
Capital assets, not depreciated:				
Land	$ 19,738	$	$	$ 19,738
Capital assets, being depreciated:				
Buildings	$ 93,232	$ -	$ -	$ 93,232
Machinery and equipment	154,665	1,142	(26,598)	129,209
Water System	2,011,732	58,590	-	2,070,322
Total Capital Assets, being Depreciated	2,259,629	59,732	(26,598)	2,292,763
Less accumulated depreciation for:				
Buildings	(28,721)	(2,331)	-	(31,052)
Machinery and equipment	(61,684)	(12,214)	6,428	(67,470)
Water System	(792,187)	(50,672)	-	(842,859)
Total accumulated depreciation	(882,592)	(65,217)	6,428	(941,381)
Total Capital Assets, Net	$ 1,396,775	$ (5,485)	$ (20,170)	$ 1,371,120

Depreciation expense for the year ended December 31, 2021 was $65,217.

NOTE 5 – ACCOUNTS RECEIVABLE:

Accounts receivable are recorded at net realizable value. This value does not include an allowance for estimated uncollectible accounts because meter deposits are expected to adequately cover past due accounts. As of December 31, 2021, accounts receivables were:

	2021
Current – due within 30 days	$ 52,239
Past due	31,257
Prepay/Overpay	(4,775)
Unbilled receivables	5,627
Total	$ 84,348

NOTE 6 - LONG-TERM DEBT:

Changes in Long-Term debt obligations for the year ended December 31, 2021, were as follows:

	Balance December 31, 2020	Increases	Decreases	Balance December 31, 2021	Due Within One Year
Note payable to USDA Rural Development; interest rate of 5.00% per annum. Payable in monthly installments of $310, including interest, through December 2021. The note is secured by water sales revenue and system assets.	$ 3,272	$ -	$ 3,272	$ -	$ -
Bond payable to AR Natural Resource Comm.; interest rate of 5.00% per annum. Payable in semi-annual installments of $36,189 including interest through December 2029. The note is secured by water sales revenue and system assets.	496,262	-	48,160	448,102	50,598
Bond payable to AR Natural Resource Comm.; interest rate of 4.50% per annum. Payable in semi-annual installments of $5,492 including interest through December 2025. The note is secured by water sales revenue and system assets.	47,965	-	8,925	39,040	9,331
Note payable to Arkansas Natural Resources Comm.; interest rate of .50% per annum. Payable in annual installments of $26,823 including interest, through June 2029. The note is secured by water sales revenue and system assets.	235,482	-	25,646	209,836	25,774
Total Long-Term Debt	$ 782,981	$ -	$ 86,003	$ 696,978	$ 85,703

Maturities of long-term debt for years subsequent to 2021 are as follows: 2022 - $85,703; 2023 - $88,818; 2024 - $92,082; 2025 - $94,593; 2026 - $87,941; thereafter - $247,841; totaling, $696,978.

Long-term debt expected to be financed from Proprietary Fund types are accounted for in the Proprietary Fund. Expenditures related to such debt are also reflected in the Proprietary Funds.

NOTE 7 - SUBSEQUENT EVENTS:

No events occurring subsequent to year end, having a direct and material effect on the financial statements for the year ended December 31, 2021 have been determined as of the date of the audit report.

NON-FINANCIAL SECTION

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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*

City Council
Water System of the City of Guy, Arkansas
Guy, Arkansas

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 the business-type activities of the Water System of the City of Guy, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Water System of the City of Guy, Arkansas's basic financial statements, and have issued our report thereon dated October 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Water System of the City of Guy, Arkansas's 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 Water System of the City of Guy, Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of the Water System of the City of Guy, Arkansas's 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 Water System of the City of Guy, Arkansas's 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*.

We noted certain matters that we reported to management of Water System of the City of Guy, Arkansas in a separate letter dated October 21, 2022.

Purpose of this Report

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

Conner & Sartain

October 21, 2022
Conway, Arkansas

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

SCHEDULE OF FINDINGS/NONCOMPLIANCE AND QUESTIONED COSTS

DECEMBER 31, 2021

Program	Findings/Noncompliance	Questioned Costs
United States Department of Agriculture - Rural Development	None Noted	None Noted

SUPPLEMENTAL INFORMATION

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

SUPPLEMENTAL INFORMATION

DECEMBER 31, 2021

SCHEDULE OF RATES CHARGED:

	2021
WATER -	
First 1,000 gallons	$ 26.80
Next 4,000 gallons	7.15
Any additional 1,000 gallons	7.65

GROSS REVENUE RECEIVED:

	2021
Gross Water Revenue	$ 637,240
Number of Connections	911
Number of Gallons Bought	78,080,000
Number of Gallons Sold	49,258,700

NAMES AND TITLES OF DIRECTORS:

Name	Title
Sam Higdon	Mayor
Rita James	Recorder/Treasurer
David Stephens	Alderman
Joey Glover	Alderman
Nikki Dollar	Alderman
Marc Burrows	Alderman
Ronnie Clendenin	Alderman
Chris Humphrey	Alderman
Shelly Brown	Alderman
Greg Hooten	Water Superintendent

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS

SUPPLEMENTAL INFORMATION (CONTINUED)

DECEMBER 31, 2021

INSURANCE COVERAGE:

Policy	Company	Coverage	Term
V2100053 01/07/21 – 01/06/2022	Arkansas Municipal League	Auto, Damage, and Liability	
		2012 Chevrolet Silverado	$ 19,192.00
		2017 Nissan NV200	24,000.00
		2019 Dodge Ram 1500	30,000.00
FBTF15	Arkansas Fidelity Bond Trust	Blanket Fidelity Bond All employees and Officers	07/01/2021-06/30/2022 $300,000 per occurrence $2,500 deductible
4A8-97-16---22	EMC Insurance	Property coverage	04/01/2021-04/01/2022
		Building	$ 164,682.00
		Personal Property of Business	299,982.00
		Water Storage Tank including Fence	380,031.00
		Pump Station including Fence	101,342.00