

Faulkner County
American Rescue Plan Application

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AUG 05 2022

FAULKNER CO. JUDGE

Organizational information:

Name or organization: Guy Water

Physical address: 405 Hwy 25 N, Greenbrier, AR 72058

Mailing address: P.O. Box 12, Guy, AR 72051

Email: gbhooten@yahoo.com

Phone: 501-679-4585

CEO or Executive Director information:

Name: Mayor Sam Higdon

Email: gbhooten@yahoo.com

Phone: 501-679-4585

Brief qualifications statement:

Financial Officer or Director information:

Name: Rita James

Email: rita_j@windstream.net

Phone: 501-679-4585

Brief qualifications statement: [City of Guy Recorder/Treasurer](#)

Who is the contact person for this application?

Name: [Greg Hooten](#)

Email: gbhooten@yahoo.com

Phone: 501-454-9195

Entity type or IRS registration: (501 (c)3, LLC, sole proprietorship, etc) [Municipality](#)

Brief history of the organization:

[Guy Water provides water to over 1,800 people in the north part of Faulkner County. We are primarily a residential water system with very few businesses on our system. Because of the growth of our water system and geographical elevations we are having water hydraulic issues getting water to the south part of our system.](#)

Financial information:

Have you received other state or federal grant funds in the past three years? If so, list the grant name, the organization from whom it was received, the amount of funding received, and the status of the grant expenditure.

[No](#)

Attach your organization's audits from 2019 and 2020 if available. [Attached](#)

What is your organization's annual budget? Please attach a copy of your 2020 and 2021 budgets. [Attached](#)

The applicant certifies that any funds received through this Faulkner County granting program are fully subject to federal regulations and affirms that the funds will be properly spent in compliance with the American Rescue Plan Act of 2021. The applicant further affirms that financial controls are in place such that each expenditure under the grant will be fully documented and that such documentation will be open to the public and submitted to the County for audit. The applicant understands that all aspects of their use of the grant are open to the public and subject to the Freedom of Information Act.

About your request:

Please indicate under which category of eligibility under ARPA your organization is applying:

Public 1--Health and Economic Impacts — Responding to COVID-19

Public Health and Economic Impacts — Responding to Negative Economic Impacts

Premium Pay

Revenue Loss

[Investments in Infrastructure — Water and Sewer](#)

Investments in Infrastructure — Broadband

Briefly and clearly state how your project responds to the COVID-19 crisis: [All funds received from the American Rescue Plan will be used for water infrastructure projects.](#)

Does your project have a county-wide impact? If so, describe, [Northern part of Faulkner County.](#)

Please describe your project including the following information (in any order): What will this project accomplish? How will those goals be measured? How to these goals relate to the goals of the American Rescue Plan Act (ARPA)?

[Listed below are five projects needing funding. Projects 1,2,3 are needed very soon. Project #1 is needed as soon as possible. With the demand for more water and fire protection all 5 of these projects will be essential to maintaining ample water supply and fire protection throughout our water system.](#)

Our goal is simple. We want everyone that needs water to have it. Throughout the pandemic people needed water to help stay safe from the virus. Adding these five projects to our water system meets that goal with extra benefits. Every day each of us expect our water to be flowing, safe and having fire protection is a bonus. Having running potable water during an emergency is priceless. All five of these projects are what the American Rescue Plan Act was designed for.

1. Breaux Lane- Water Line Extension. Laying 1.3 miles of water line. (Could be impending Emergency).
 - a. 5 residences wells are going dry with a new rock quarry being built, water tables could be severely affected.
 - b. This area is land locked by Cadron Creek.
 - c. Estimated total expense of project \$190,000.00
2. Master Meter at South part of water system.
 - a. Water supply to the south part of our system is limited. Customers on the south end of the system experienced reduced water pressure during the recent drought. With more growth our system will find it harder to supply water to this area. Geographically we serve water customers to the north side of Greenbrier. Our water intake now is in Guy with our water storage tank being northeast of Guy.
 - b. We also struggled to keep enough water during the Deep Freeze in February 2021.
 - c. This project has been approved by Water/Wastewater Advisory Committee.
 - d. This project consists of
 - i. New master meter and connection to Community Water systems
 - ii. Laying 2,500 feet of 8-inch water line with other improvements.
 - e. Estimated total expense of project \$750,000.00
3. 300,000-gallon standpipe.
 - a. Repainting and Engineering upgrades to existing standpipe.
 - b. This project has been approved by Water/Wastewater Advisory Committee.
 - c. Estimated total expense of project \$180,000.00
4. Cotton Hill road
 - a. Extending the water line to an area not previously served.
 - i. Adding water and Fire protection.
 - ii. 2,600 feet of new water line.
 - iii. Estimated total expense of project \$65,000.00
5. New Water tower on South end of system.
 - a. More Water storage in this area is needed for pressure and water volume.
 - i. With more growth within the water system more water storage is required by the Arkansas Department of Health.

- ii. More water storage would also increase Fire protection for not only my customers but also Greenbrier, Wholly Hollow and Centerville area.
- iii. Estimated total expense of project \$630,000.00

Are other funds part of the budget besides ARPA funds? If so, please list other sources of funding and a copy of their funding commitment, if available. Guy Water runs on a very tight budget each year. Any additional funds would have to come out of the operating account. This could only be done as Guy Water could afford it.

Please describe the organization's financial management practices that will ensure audit compliance.

The City of Guy Council approves an operating Budget each year.

1. Guy Water has an independent Auditor audit its financials each year.
 - a. Guy Water submits this audit the State Legislature and any lenders that require it.
2. Guy Water financial management will be handled in the same way we meet the guidelines of the state of Arkansas.

What is the total dollar amount that is being requested from Faulkner County?

**Total Estimate for 5 projects including the \$80,000.00 already granted to Guy Water.
\$1,895,000.00**

Have you received other ARPA funds? If so, how much have you received?

The City of Guy (as did all Arkansas Cities) received Funds from the American Rescue Plan Act State and Local Fiscal Recovery Funds ("SLFRF"). Total funds received \$163,258.51. These funds are being used for Covid Employee recovery expense, Premium pay for employee's who worked thru the Pandemic. The remainder of the funds are being spent for water infrastructure replacing old water lines.

Authorized Representative: The signature indicates that I have been authorized to submit an application requesting funding for the proposed project and to the best of my knowledge and belief, all data contained in this application is true and correct. If the application is approved for funding, I am authorized to sign any applicable documents on behalf of the applicant.

SAM A. HIGDON
Type Name
Sam A. Higdon
Signature

MAYOR
Title
8-5-22
Date

When completed return by mail or drop-off to:
Faulkner County Judge's Office
801 Locust Street
Conway, AR 72034

Approved 2020 Guy Water Works Budget

Income

Metered	\$ 605,000
Connection Fee	\$ 24,000
<u>Miscellaneous</u>	<u>\$ 72,000</u>
Total Income	\$ 701,000

Expenses

Dept. Service/FHA	\$ 127,000
Insurance/Taxes	\$ 52,000
Misc. Office	\$ 43,000
Repair/Water System	\$ 43,000
Utilities	\$ 15,000
Water Purchase	\$ 203,000
Capital Improvement	\$ 12,000
<u>Salaries</u>	<u>\$ 200,000</u>
Total Expenses	\$ 695,000

Mayor/Council,

1. Our water system has 885 active meters which provides water service to over 1,720 people.
2. We are still depositing \$12,000 a year into the Capital improvement account.
3. I am not asking for any raises for our employee's. This Budget does allow for raises if the Council should decide to give any.
4. This Budget does allow for Christmas Bonuses.

Greg Hooten
Guy Water

Approved 2021 Guy Water Works Budget

Income

Metered	\$ 650,000
Connection Fee	\$ 24,000
<u>Miscellaneous</u>	<u>\$ 10,000</u>
Total Income	\$ 684,000

Expenses

Dept. Service/FHA	\$ 158,000
Insurance/Taxes	\$ 55,000
Misc. Office	\$ 40,000
Repair/Water System	\$ 40,000
Utilities	\$ 14,000
Water Purchase	\$ 220,000
Capital Improvement	\$ 12,000
<u>Salaries</u>	<u>\$ 140,000</u>
Total Expenses	\$ 679,000

Mayor/Council,

1. Our water system has 904 active meters which provides water service to over 1,750 people.
2. We are still depositing \$12,000 a year into the Capital improvement account.
3. I am asking for all City/Water/Street Employees to receive a \$ 0.50 cent raise per hour.
4. This Budget does allow for Christmas Bonuses.

Greg Hooten

Guy Water

WATER SYSTEM OF THE
CITY OF GUY, ARKANSAS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water System of the City of Guy, Arkansas (the System), as of and for the years ended December 31, 2019 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System of the City of Guy, Arkansas, as of December 31, 2019, 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.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison 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 statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water System of the City of Guy, Arkansas and do not purport to, and do not present fairly the financial position of the City of Guy, Arkansas, as of December 31, 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2020, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Turner, Williams and Associates, P.A.
Searcy, Arkansas
June 16, 2020

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2019

ASSETS

Current assets

Cash	\$ 157,993
Accounts receivable - water	67,113
Total current assets	225,106

Long-term assets

Property and equipment, net of depreciation (Note 3)	1,433,923
Total long-term assets	1,433,923

Other assets

Restricted cash	148,522
Total other assets	148,522

TOTAL ASSETS	\$ 1,807,551
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LIABILITIES AND NET POSITION

Current liabilities

Accounts payable	\$ 22,031
Accrued interest payable	3,105
Accrued payroll	847
Accrued vacation	5,975
Accrued payroll taxes	652
Customer meter deposits	67,907
Current portion of notes and bonds payable	83,355
Total current liabilities	183,872

Long-term liabilities

Notes and bonds payable, net of current portion	782,980
Total long-term liabilities	782,980
Total liabilities	966,852

Net position

Net investment in capital assets	567,588
Restricted	80,615
Unrestricted	192,496
Total net position	840,699

TOTAL LIABILITIES AND NET POSITION	\$ 1,807,551
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The accompanying notes are an integral part of these financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Operating revenue</u>	
Water revenue	\$ 590,252
Connection fees	33,500
Inspection fees	2,200
Other revenue	6,721
	632,673
 <u>Operating expenses</u>	
Auto	5,853
Depreciation	52,983
Dues	5,720
Insurance	7,700
Road bore	7,800
Rent	1,744
Miscellaneous	1,941
Office	13,055
Professional fees	6,318
Supplies and repair	28,449
Taxes - payroll	9,334
Taxes - real estate	3
Taxes - sales	40,669
Travel	1,798
Utilities	12,348
Wages	123,635
Water	198,655
Total operating expenses	518,005
Net operating income	114,668
 <u>Nonoperating revenue (expenses)</u>	
Interest income	1,054
Insurance proceeds	27,562
Interest expense	(32,437)
Income (Loss) on disposal of assets	(19,420)
Other expense, net	(23,241)
Increase (decrease) in net position	91,427
Net position at beginning of year	749,272
Net position at end of year	\$ 840,699

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 600,498
Cash paid for water	(198,655)
Cash paid to employees	(123,635)
Cash paid to suppliers	(135,974)
Net cash provided (used) by operating activities	142,234
<u>Cash flows from investing activities</u>	
Interest received on investments	1,054
Purchases of property and equipment	(328,082)
Proceeds from sale of property and equipment	10,000
Insurance proceeds	27,562
Net cash provided (used) by investing activities	(289,466)
<u>Cash flows from capital and related financing activities</u>	
Repayments of long-term debt	(55,089)
Proceeds from new loans	261,000
Interest paid on debt	(32,438)
Net cash provided (used) in capital and related financing activities	173,473
Net increase in cash and cash equivalents	26,241
Cash and cash equivalents, beginning of year	131,752
Cash and cash equivalents, end of year	\$ 157,993

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Net operating income	\$ 114,668
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	52,983
Change in assets and liabilities which provided (used) cash	
Accounts receivable	(10,311)
Restricted cash	(27,488)
Accounts payable and accrued expenses	6,758
Customer meter deposits	5,624
Net cash provided (used) by operating activities	<u>\$ 142,234</u>

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

1) SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING

Organization

The Water System of the City of Guy, Arkansas (System), is a component unit of the City of Guy, Arkansas (City) which was established as an enterprise fund of the City to provide water services to residents of the City. These financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the funds and account groups of the City that are attributable to transactions of the system, not the financial position of the City of Guy, Arkansas.

Basis of Accounting

The financial statements of the System are prepared in accordance with generally accepted accounting principles (GAAP). It applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements and apply all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The accounts of the System are accounted for in an enterprise fund, which is considered a proprietary fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises for which periodic determination of revenues, expenses and net income is desirable. The intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Operating revenues and expenses are distinguished from other income (expense) items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues (expenses) not meeting this definition are reported as other nonoperating income (expenses), but remain a major component of the overall revenues and expenses of the System.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and regulatory requirements. Accordingly, net position of the System and changes therein are classified and reported as follows as required by GASB:

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Net investment in Capital Assets- consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted - consists of net position with constraints placed on the use either by external groups such as creditors, grantor, contributors, or laws or regulations of other governments or by law through constitutional provision or enabling legislation.

Unrestricted - consists of all other fund position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

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.

Income Taxes

The entity is exempt from income taxes under Section 501(c)(4) of the internal Revenue Code of 1986; therefore no provision for income taxes has been made in the accompanying financial statements.

Concentration of Credit Risk

Sales of water services are made on open account to customers located in the City of Guy, Arkansas and are collateralized to the extent of each customer's meter deposit.

Concentration of Custodial Risk

The System had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial risk is the risk that in the event of bank failure, the System's deposits may not be returned to the system. The System's deposit policy for custodial credit risk requires compliance with the provisions of the state law. State law requires collateralization of all deposits with federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At December 31, 2019, all of the Department's cash balances of \$313,208 (held at two different financial institutions) were insured by the FDIC.

Concentration of Vendor Risk

Purchases for the year ended December 31, 2019 include amounts from a major supplier that accounted for 100% of the water purchased by the System. Management believes no significant risk is present under this arrangement.

Cash and Cash Equivalents

Cash and Cash Equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

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, 2019.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2019

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 and a useful life of greater than one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Depreciation is computed using primarily the straight-line method over the following estimated useful lives:

Asset	Useful Life
Water System	9-40 years
Buildings and Improvements	15-40 years
Equipment	3-10 years
Construction in Progress	Depreciable upon completion
Land	Indefinite

Depreciation expense was \$52,983 for the year ended December 31, 2019.

Compensated Absences

The System provides all eligible employees vacation benefits. The System has accrued a liability for vacation pay, which has been earned but not taken by employees.

Customer Deposits

As 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.

Grant Revenue

Resources from capital grants are reported as restricted support. When a grant restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net position and reported in the statement of activities as net assets released from restrictions.

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.

Subsequent Events

Management has evaluated subsequent events through June 16, 2020, the date which the financial statements were available to be issued.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2) RESTRICTED ASSETS

Restricted assets consists of customer meter deposits, a debt service reserve required by the USDA, and a depreciation reserve required by Arkansas Natural Resource Commission.

Restricted assets are as follows:

	2019
Customer meter deposits	\$ 67,907
Debt Service Reserve-USDA	3,720
Depreciation Reserve-ANRC	76,895
	\$ 148,522

The loan agreement with USDA requires a debt service reserve to be funded at a rate of \$310 per month for a period of 40 years. The loan agreements with ANRC require the System to fund a depreciation reserve account in the amount of \$200,000 to be accumulated at the rate of \$240 per month. Also the System must maintain a meter construction depreciation account that must have a balance of 3% of gross revenue until the balance reaches \$50,000. Total required reserves for loans totals \$80,615 for the year ended December 31, 2019.

3) PROPERTY AND EQUIPMENT

At December 31, 2019, the carrying value and accumulated depreciation of property and equipment are as follows:

	12/31/2018	Additions	Disposals	12/31/2019
Water system	\$ 1,748,750	\$ 264,751	\$ (17,782)	\$ 1,995,719
Buildings and Improvements	94,432		(1,200)	93,232
Equipment	114,679	83,332	(44,596)	153,415
Land	11,662	-	-	11,662
	1,969,523	348,083	(63,578)	2,254,028
Accumulated depreciation	(811,279)	(52,983)	44,157	(820,105)
Net property and equipment	\$ 1,158,244	\$ 295,100	\$ (19,421)	\$ 1,433,923

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

4) LONG-TERM DEBT

Long-term debt consists of the following:

	2018	Increase (Decrease)	2019	Due Within One Year
Note payable to USDA Rural Dev. Bearing interest at 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.	\$ 10,028	\$ (3,294)	\$ 6,734	\$ 3,462
Note payable to AR Natural Resource Comm. bearing Interest at 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.	585,730	(43,630)	542,100	45,839
Note payable to AR Natural Resource Comm. bearing Interest at .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.	-	261,000	261,000	25,518
Note payable to AR Natural Resource Comm. bearing Interest at 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.	64,666	(8,165)	56,501	8,536
Total long-term debt	\$ 660,424	\$ 205,911	\$ 866,335	\$ 83,355
Less current portion	(55,088)	(28,267)	(83,355)	
Long-term debt, net of current portion	<u>\$ 605,336</u>	<u>\$ 177,644</u>	<u>\$ 782,980</u>	

Scheduled retirements of long-term debt are as follows:

For the year ended December 31:

	Principal	Interest
2020	83,355	30,441
2021	86,002	27,536
2022	85,703	24,482
2023	88,818	21,367
2024	92,082	18,103
2025-2029	430,375	39,561
	<u>\$ 866,335</u>	<u>\$ 161,490</u>

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2019

5) CHANGES IN NET POSITION

The changes in net position are as follows:

	Net in Capital Assets	Unrestricted	Restricted	Total
Net Position at December 31, 2018	\$ 497,820	\$ 192,701	\$ 58,751	\$ 749,272
Profit	-	91,427	-	91,427
Transfers	69,768	(91,632)	21,864	-
Net Position at December 31, 2019	<u>\$ 567,588</u>	<u>\$ 192,496</u>	<u>\$ 80,615</u>	<u>\$ 840,699</u>

6) INCOME TAXES

Generally accepted accounting principles require tax effects from uncertain tax position to be recognized in financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not-threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The System's primary tax positions relate to its status as a non-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the System's tax filings and does not believe that any material uncertain tax positions exist.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S 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
City of 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 Water System of the City of Guy, Arkansas, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 the System'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 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 did not disclose any 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas

June 16, 2020

WATER SYSTEM OF THE
CITY OF GUY, ARKANSAS

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Water System of the City of Guy, Arkansas (the System), as of and for the years ended December 31, 2020 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water System of the City of Guy, Arkansas, as of December 31, 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.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison 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 statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water System of the City of Guy, Arkansas and do not purport to, and do not present fairly the financial position of the City of Guy, Arkansas, as of December 31, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2021, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Turner, Williams and Associates, P.A.
Searcy, Arkansas
September 10, 2021

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF NET POSITION
DECEMBER 31, 2020

ASSETS

Current assets

Cash	\$ 191,406
Accounts receivable - water	86,474
Total current assets	277,880

Long-term assets

Property and equipment, net of depreciation (Note 3)	1,396,775
Total long-term assets	1,396,775

Other assets

Restricted cash	163,245
Total other assets	163,245

TOTAL ASSETS	\$ 1,837,900
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LIABILITIES AND NET POSITION

Current liabilities

Accounts payable	\$ 25,763
Accrued interest payable	3,105
Accrued payroll	880
Accrued vacation	5,720
Accrued payroll taxes	407
Customer meter deposits	69,513
Current portion of notes and bonds payable	86,002
Total current liabilities	191,390

Long-term liabilities

Notes and bonds payable, net of current portion	696,978
Total long-term liabilities	696,978

Total liabilities	888,368
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Net position

Net investment in capital assets	613,795
Restricted	93,732
Unrestricted	242,005
Total net position	949,532

TOTAL LIABILITIES AND NET POSITION	\$ 1,837,900
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The accompanying notes are an integral part of these financial statements.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

<u>Operating revenue</u>	
Water revenue	\$ 645,226
Connection fees	15,770
Inspection fees	1,960
Other revenue	9,495
	672,451
 <u>Operating expenses</u>	
Auto	3,725
Depreciation	62,487
Dues	6,453
Insurance	8,622
Road bore	3,275
Bad debt	2,145
Miscellaneous	802
Office	13,612
Professional fees	6,721
Supplies and repair	32,863
Taxes - payroll	8,835
Taxes - real estate	3
Taxes - sales	43,733
Travel	100
Utilities	11,790
Wages	120,767
Water	220,726
Total operating expenses	546,659
Net operating income	125,792
 <u>Nonoperating revenue (expenses)</u>	
Interest income	796
Interest expense	(30,441)
Other expense, net	(29,645)
Increase (decrease) in net position	96,147
Net position at beginning of year	840,699
Prior period adjustment (Note 7)	12,686
Net position at beginning of year adjusted	853,385
Net position at end of year	\$ 949,532

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 651,053
Cash paid for water	(220,726)
Cash paid to employees	(120,767)
Cash paid to suppliers	(137,810)
Net cash provided (used) by operating activities	171,750
 <u>Cash flows from investing activities</u>	
Interest received on investments	796
Purchases of property and equipment	(25,339)
Net cash provided (used) by investing activities	(24,543)
 <u>Cash flows from capital and related financing activities</u>	
Repayments of long-term debt	(83,353)
Interest paid on debt	(30,441)
Net cash provided (used) in capital and related financing activities	(113,794)
 Net increase in cash and cash equivalents	
	33,413
Cash and cash equivalents, beginning of year	157,993
Cash and cash equivalents, end of year	\$ 191,406

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Net operating income	\$ 125,792
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	62,487
Change in assets and liabilities which provided (used) cash	
Accounts receivable	(6,675)
Restricted cash	(14,723)
Accounts payable and accrued expenses	3,263
Customer meter deposits	1,606
Net cash provided (used) by operating activities	<u>\$ 171,750</u>

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

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1) SUMMARY OF ORGANIZATION AND SIGNIFICANT ACCOUNTING

Organization

The Water System of the City of Guy, Arkansas (System), is a component unit of the City of Guy, Arkansas (City) which was established as an enterprise fund of the City to provide water services to residents of the City. These financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the funds and account groups of the City that are attributable to transactions of the system, not the financial position of the City of Guy, Arkansas.

Basis of Accounting

The financial statements of the System are prepared in accordance with generally accepted accounting principles (GAAP). It applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements and apply all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The accounts of the System are accounted for in an enterprise fund, which is considered a proprietary fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises for which periodic determination of revenues, expenses and net income is desirable. The intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Operating revenues and expenses are distinguished from other income (expense) items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues (expenses) not meeting this definition are reported as other nonoperating income (expenses), but remain a major component of the overall revenues and expenses of the System.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and regulatory requirements. Accordingly, net position of the System and changes therein are classified and reported as follows as required by GASB:

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

Net investment in Capital Assets- consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

Restricted - consists of net position with constraints placed on the use either by external groups such as creditors, grantor, contributors, or laws or regulations of other governments or by law through constitutional provision or enabling legislation.

Unrestricted - consists of all other fund position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

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.

Income Taxes

The entity is exempt from income taxes under Section 501(c)(4) of the internal Revenue Code of 1986; therefore no provision for income taxes has been made in the accompanying financial statements.

Concentration of Credit Risk

Sales of water services are made on open account to customers located in the City of Guy, Arkansas and are collateralized to the extent of each customer's meter deposit.

Concentration of Custodial Risk

The System had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial risk is the risk that in the event of bank failure, the System's deposits may not be returned to the system. The System's deposit policy for custodial credit risk requires compliance with the provisions of the state law. State law requires collateralization of all deposits with federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At December 31, 2020, all of the Department's cash balances of \$356,997 (held at two different financial institutions) that were insured by the FDIC.

Concentration of Vendor Risk

Purchases for the year ended December 31, 2020 include amounts from a major supplier that accounted for 100% of the water purchased by the System. Management believes no significant risk is present under this arrangement.

Cash and Cash Equivalents

Cash and Cash Equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

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. Bad debt expense was \$2,145 for the year ended December 31, 2020.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2020

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 and a useful life of greater than one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Depreciation is computed using primarily the straight-line method over the following estimated useful lives:

Asset	Useful Life
Water System	9-40 years
Buildings and Improvements	15-40 years
Equipment	3-10 years
Construction in Progress	Depreciable upon completion
Land	Indefinite

Depreciation expense was \$62,487 for the year ended December 31, 2020.

Compensated Absences

The System provides all eligible employees vacation benefits. The System has accrued a liability for vacation pay, which has been earned but not taken by employees.

Customer Deposits

As 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.

Grant Revenue

Resources from capital grants are reported as restricted support. When a grant restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net position and reported in the statement of activities as net assets released from restrictions.

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.

Fair Value of Financial Instruments

The estimated fair values of the System's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Subsequent Events

Management has evaluated subsequent events through September 10, 2021, the date which the financial statements were available to be issued.

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2) RESTRICTED ASSETS

Restricted assets consists of customer meter deposits, a debt service reserve required by the USDA, and a depreciation reserve required by Arkansas Natural Resource Commission.

Restricted assets are as follows:

	2020
Customer meter deposits	\$ 69,513
Debt Service Reserve-USDA	3,270
Depreciation Reserve-ANRC	90,462
	\$ 163,245

The loan agreement with USDA requires a debt service reserve to be funded at a rate of \$310 per month for a period of 40 years. The loan agreements with ANRC require the System to fund a depreciation reserve account in the amount of \$200,000 to be accumulated at the rate of \$240 per month. Also the System must maintain a meter construction depreciation account that must have a balance of 3% of gross revenue until the balance reaches \$50,000. Total required reserves for loans totals \$93,732 for the year ended December 31, 2020.

3) PROPERTY AND EQUIPMENT

At December 31, 2020, the carrying value and accumulated depreciation of property and equipment are as follows:

	12/31/2019	Additions	Disposals	12/31/2020
Water system	\$ 1,995,719	\$ 16,013	\$ -	\$ 2,011,732
Buildings and Improvements	93,232	-	-	93,232
Equipment	153,415	1,250	-	154,665
Land	11,662	8,076	-	19,738
	2,254,028	25,339	-	2,279,367
Accumulated depreciation	(820,105)	(62,487)	-	(882,592)
Net property and equipment	\$ 1,433,923	\$ (37,148)	\$ -	\$ 1,396,775

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

4) LONG-TERM DEBT

Long-term debt consists of the following:

	2019	Increase (Decrease)	2020	Due Within One Year
Note payable to USDA Rural Dev. Bearing interest at 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.	\$ 6,734	\$ (3,462)	\$ 3,272	\$ 3,272
Note payable to AR Natural Resource Comm. bearing interest at 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.	542,100	(45,839)	496,261	48,160
Note payable to AR Natural Resource Comm. bearing interest at .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.	261,000	(25,518)	235,482	25,645
Note payable to AR Natural Resource Comm. bearing interest at 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.	56,501	(8,536)	47,965	8,925
Total long-term debt	\$ 866,335	\$ (83,355)	\$ 782,980	\$ 86,002
Less current portion	(83,355)	(2,647)	(86,002)	
Long-term debt, net of current portion	<u>\$ 782,980</u>	<u>\$ (86,002)</u>	<u>\$ 696,978</u>	

Scheduled retirements of long-term debt are as follows:

For the year ended December 31:

	Principal	Interest
2021	86,002	27,536
2022	85,703	24,482
2023	88,818	21,367
2024	92,082	18,103
2025	94,593	14,682
2026-2030	335,782	24,879
	<u>\$ 782,980</u>	<u>\$ 131,049</u>

WATER SYSTEM OF THE CITY OF GUY, ARKANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

5) CHANGES IN NET POSITION

The changes in net position are as follows:

	Net in Capital			Total
	Assets	Unrestricted	Restricted	
Net Position at December 31, 2019	\$ 567,588	\$ 192,496	\$ 80,615	\$ 840,699
Prior period adjustment (Note 7)	-	12,686	-	12,686
Profit	-	96,147	-	96,147
Transfers	46,207	(59,324)	13,117	-
Net Position at December 31, 2020	<u>\$ 613,795</u>	<u>\$ 242,005</u>	<u>\$ 93,732</u>	<u>\$ 949,532</u>

6) INCOME TAXES

Generally accepted accounting principles require tax effects from uncertain tax position to be recognized in financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not-threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. The System's primary tax positions relate to its status as a non-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the System's tax filings and does not believe that any material uncertain tax positions exist.

7) PRIOR PERIOD ADJUSTMENT

The System's unrestricted net assets were understated by \$12,686 in the prior year and as a result the following was posted. An adjustment was posted as an increase to unrestricted net assets of \$12,686 as of December 31, 2020 for unbilled receivables from water revenue.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S 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
City of 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 Water System of the City of Guy, Arkansas, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated September 10, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 the System'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 did not disclose any 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 the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas
September 10, 2021