

GLENWOOD WATER AND SEWER DEPARTMENT

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GLENWOOD, ARKANSAS

DECEMBER 31, 2019

GLENWOOD WATER AND SEWER DEPARTMENT
GLENWOOD, ARKANSAS

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Glenwood Water and Sewer Department

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the utility's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Overview

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the utility's financial condition and performance.

The financial statements report information about the utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a balance sheet, statement of revenues, expenses and changes in net assets, statement of cash flows, notes to the financial statements and other supporting schedules.

The balance sheet presents the financial position of the utility on a full accrual historical cost basis. This statement presents information on all of the assets and liabilities with the difference reported as net assets. Over time, increases and decreases in net assets are an indicator of whether the financial position of the utility is improving or deteriorating.

While the balance sheet provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net assets presents the results of the business activities over the course of the fiscal year and information on how net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, financing and investing activities. This statement presents cash receipts and disbursement information only.

The notes to the financial statements and supplementary information are provided to disclose information that is essential to a full understanding of the material data provided in the statements.

The financial statements were prepared by Glenwood Water and Sewer Department staff from its detailed transactions for the years ending December 31, 2019 and 2018. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The financial statements on pages 5 through 9 provide information about the financial activities of Glenwood Water and Sewer Department. The following information is an analysis of the year presented.

Balance Sheet

Total assets as of December 31, 2019 were \$16,884,726 and exceeded liabilities, which were \$9,362,034.

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 1,359,811	\$ 1,147,738
Restricted Assets	873,414	845,948
Net Capital Assets	14,504,842	14,723,688
Other Assets	146,659	155,214
Current Liabilities	49,911	33,159
Liabilities Payable from Restricted Assets	788,307	736,558
Long-Term Liabilities	8,523,816	9,155,425
Fund Equity:		
Reserved	85,107	109,390
Unreserved	<u>7,437,585</u>	<u>6,838,056</u>
Total Fund Equity	<u>7,522,692</u>	<u>6,947,446</u>

The current ratio is an indication of short-term liquidity and is calculated by dividing current assets by current liabilities. A resulting number greater than one indicates current assets in excess of current needs that can be applied in future periods. The current ratio of Glenwood Water and Sewer Department was 27.24 for 2019, compared to 34.61 for 2018. Another ratio that is computed from this statement is the debt utilization ratio, which indicates what percentage the total debt is to total assets. This ratio is calculated by dividing total debt by total assets. The debt utilization ratio for the year ending December 31, 2019 was 55%.

Statement of Revenues, Expenses and Changes in Net Assets

For the years ending December 31, 2019 and 2018, operating revenues were \$2,147,236 and \$1,951,156, respectively and operating expenses were \$1,260,339 and \$1,275,315, respectively. Non-operating income was \$13,986 and \$8,906, respectively and non-operating expenses were \$325,637 and \$331,796, respectively. The results were a net income of \$575,246 and \$352,951, respectively.

Contacting Management

The financial report is designed to provide our customers, citizens, and creditors with a general overview of the finances of Glenwood Water and Sewer Department and to show the accountability for the money it receives. If you have any questions about this report or need further financial information, contact our office at 210 N 2nd St; Glenwood, Arkansas 71943 or call (870) 356-3613.

TURNER, RODGERS, MANNING & PLYLER, PLLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the City Council and Management
Glenwood, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Glenwood Water and Sewer Department, a component unit of the City of Glenwood, Arkansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Glenwood Water and Sewer Department's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 respective financial position of Glenwood Water and Sewer Department as of December 31, 2019 and 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above present only the Glenwood Water and Sewer Department which is an enterprise fund of the City of Glenwood, Arkansas and are not intended to present fairly the financial position of the City of Glenwood, Arkansas, and the results of its operations and cash flows of its other proprietary fund types and non-expendable trust funds in conformity with generally accepted accounting principles.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 1 and 2), and budgetary comparison information (page 18) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020 on our consideration of Glenwood Water and Sewer Department'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 Glenwood Water and Sewer Department's internal control over financial reporting and compliance.

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

June 30, 2020

GLENWOOD WATER AND SEWER DEPARTMENT
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

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ASSETS

	2019	2018
CURRENT ASSETS:		
Cash	\$ 1,007,124	\$ 810,530
Certificates of Deposit	145,298	143,169
Accounts Receivable - Customers	122,599	104,852
Accounts Receivable - State Sales Tax	43,865	42,130
Accrued Interest Receivable	713	221
Inventory	24,868	24,868
Prepaid Expenses	15,344	21,968
TOTAL CURRENT ASSETS	1,359,811	1,147,738
RESTRICTED ASSETS:		
Depreciation Fund	189,037	142,304
Sewer and Water Sales Tax Funds	34,403	66,712
Meter Deposits Fund	93,791	83,931
Certificate of Deposit - ADFA Water and Sewer Funds	324,265	321,272
ADFA Water and Sewer Funds	231,918	231,729
TOTAL RESTRICTED ASSETS	873,414	845,948
PLANT AND EQUIPMENT:		
Land and Improvements	426,455	426,455
Water and Sewer Plant	20,896,577	20,627,325
Water Treatment	484,290	484,290
	21,807,322	21,538,070
Less Accumulated Depreciation	(7,302,480)	(6,814,382)
TOTAL PLANT AND EQUIPMENT	14,504,842	14,723,688
OTHER ASSETS:		
Debt Issuance Costs - Net of Amortization (2019 - \$100,959, 2018 - \$92,404)	146,659	155,214
TOTAL ASSETS	\$ 16,884,726	\$ 16,872,588

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

GLENWOOD WATER AND SEWER DEPARTMENT
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

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LIABILITIES AND FUND EQUITY

	2019	2018
CURRENT LIABILITIES:		
Accounts Payable	\$ 38,060	\$ 22,589
Accrued Wages	3,078	5,490
Due to General Fund	2,500	-
Sales Tax Payable	5,755	4,573
Other Accrued Expenses	518	507
TOTAL CURRENT LIABILITIES	49,911	33,159
 LIABILITIES PAYABLE FROM RESTRICTED FUNDS:		
Accrued Interest Payable	62,907	53,445
Customer Deposits	93,791	70,729
Current Portion of Long-Term Debt	631,609	612,384
TOTAL LIABILITIES PAYABLE FROM RESTRICTED FUNDS	788,307	736,558
 LONG-TERM LIABILITIES	8,523,816	9,155,425
 TOTAL LIABILITIES	9,362,034	9,925,142
 FUND EQUITY:		
Retained Earnings:		
Reserved	85,107	109,390
Unreserved	7,437,585	6,838,056
TOTAL FUND EQUITY	7,522,692	6,947,446
 TOTAL LIABILITIES AND FUND EQUITY	\$16,884,726	\$16,872,588

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

GLENWOOD WATER AND SEWER DEPARTMENT
 STATEMENTS OF REVENUE, EXPENSES AND
 CHANGES IN FUND EQUITY
 FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018
	Sewer	Water	Total	Total
OPERATING REVENUE:				
Water Revenue	\$ -	\$ 1,129,404	\$ 1,129,404	\$ 1,016,756
Sewer Revenue	406,371	-	406,371	340,318
Penalties	10,141	11,659	21,800	23,895
Connection Fees	-	30,846	30,846	16,930
Sales Tax Revenue	344,935	207,961	552,896	547,707
Miscellaneous Income	-	5,919	5,919	5,550
TOTAL REVENUE	<u>761,447</u>	<u>1,385,789</u>	<u>2,147,236</u>	<u>1,951,156</u>
OPERATING EXPENSES:				
Salaries	86,483	84,071	170,554	185,013
Utilities	73,408	93,106	166,514	132,622
Insurance	21,214	37,844	59,058	63,109
Maintenance	126,267	140,199	266,466	336,488
Office Expense	-	13,730	13,730	17,453
Depreciation	162,657	325,441	488,098	477,898
Miscellaneous	16,094	79,825	95,919	62,732
TOTAL OPERATING EXPENSES	<u>486,123</u>	<u>774,216</u>	<u>1,260,339</u>	<u>1,275,315</u>
OPERATING INCOME	<u>275,324</u>	<u>611,573</u>	<u>886,897</u>	<u>675,841</u>
NONOPERATING REVENUE (EXPENSES):				
Interest Earned	5,157	8,829	13,986	8,906
Amortization of Debt Issuance Costs	-	(8,555)	(8,555)	(8,555)
Interest Expense	(87,565)	(229,517)	(317,082)	(323,241)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>(82,408)</u>	<u>(229,243)</u>	<u>(311,651)</u>	<u>(322,890)</u>
NET INCOME	<u>\$ 192,916</u>	<u>\$ 382,330</u>	<u>575,246</u>	<u>352,951</u>
FUND EQUITY - BEGINNING OF YEAR			6,947,446	6,594,495
FUND EQUITY - END OF YEAR			<u>\$ 7,522,692</u>	<u>\$ 6,947,446</u>

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

GLENWOOD WATER AND SEWER DEPARTMENT
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 1,575,166	\$ 1,377,589
Cash Received from Sales Tax Revenue	551,161	548,211
Cash Paid to Suppliers	(574,472)	(601,861)
Cash Paid to Employees	(172,966)	(183,623)
NET CASH FLOW FROM OPERATING ACTIVITIES	1,378,889	1,140,316
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	13,494	8,894
Purchases of Certificates of Deposit	(5,122)	(7,823)
NET CASH FLOWS FROM INVESTING ACTIVITIES	8,372	1,071
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Customer Deposits (Net) Received (Returned)	23,062	(1,709)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments for Capital Expenditures	(269,252)	(31,834)
Principal Payment - Debt	(612,384)	(593,759)
Interest Paid	(307,620)	(326,240)
NET CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(1,189,256)	(951,833)
NET CHANGE IN CASH AND CASH EQUIVALENTS	221,067	187,845
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,335,206	1,147,361
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,556,273	\$ 1,335,206

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

GLENWOOD WATER AND SEWER DEPARTMENT
 STATEMENTS OF CASH FLOWS
 FOR YEARS ENDED DECEMBER 31, 2019 AND 2018

Reconciliation of operating income to net cash flow from operating activities:

	2019	2018
OPERATING INCOME	\$ 886,897	\$ 675,841
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Depreciation	488,098	477,898
Bad Debts	1,427	6,298
Change in Assets and Liabilities:		
Accounts Receivable	(20,909)	(15,993)
Prepaid Expense	6,624	(7,973)
Accounts Payable and Accrued Expenses	16,752	4,245
TOTAL ADJUSTMENTS	491,992	464,475
NET CASH FLOW FROM OPERATING ACTIVITIES	\$ 1,378,889	\$ 1,140,316

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

None

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

GLENWOOD WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 1. Significant Accounting Policies:

The Glenwood Water and Sewer Department (the Department) is an operating entity of the City of Glenwood, Arkansas. The Department is independent with respect to revenue, expenses, assets, and liabilities in that the City of Glenwood is prohibited by loan agreements from converting any revenue or assets to general use, and the City is not responsible for any Water and Sewer Department debt. It serves customers in the City of Glenwood and the Pike County area as well as the City of Norman and Montgomery County.

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.

For purpose of the statement of cash flows, the Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Materials and supplies on hand at December 31, 2019 and 2018 were valued at estimated cost.

An allowance for bad debts has been provided based on the estimated bad debts experience.

Fixed assets are stated at cost. Depreciation has been computed using the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Water and Sewer Plant	50
Buildings and Improvements	15 - 40
Machinery and Equipment	5 - 15

Restricted funds are those that have been restricted in accordance with various ordinances or some other purpose. These ordinances require that monthly deposits be made directly to these accounts for one sixth (1/6) of the next installment of principal and interest due. The accounts are titled Sewer and Water Sales Tax Fund, ADFA Water and Sewer Bond Fund and ADFA Depreciation Fund. After making the required deposits above, three percent (3%) of gross monthly revenues will be deposited into the ADFA Depreciation Fund.

Debt issuance cost is being amortized by the straight-line method over the life of the bonds. The amount charged to operations was \$8,555 for each of the years ended December 31, 2019 and 2018, respectively. The amortization of debt issuance costs included in construction in progress will be amortized when principal payments commence on the bonds. Debt issue cost of \$247,618 is being amortized over the life of the bonds or thirty years, whichever is shorter.

The Department requires every customer to pay a meter deposit before service is provided. Concentration of credit risk with respect to trade receivables is limited by these deposits.

Management has evaluated subsequent events through June 30, 2020, the date the financial statements were available for issuance.

GLENWOOD WATER AND SEWER DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019

Note 2. Capital Assets:

Capital asset activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Fixed Assets:					
Land and Improvements	\$ 426,455	\$ -	\$ -	\$ -	\$ 426,455
Water and Sewer Plant	20,627,325	269,252	-	-	20,896,577
Water Treatment	484,290	-	-	-	484,290
Total Fixed Assets	<u>21,538,070</u>	<u>269,252</u>	<u>-</u>	<u>-</u>	<u>21,807,322</u>
Less Accumulated Depreciation:					
Water and Sewer Plant	(6,513,046)	(471,955)	-	-	(6,985,001)
Water Treatment	(301,336)	(16,143)	-	-	(317,479)
Total Depreciation	<u>(6,814,382)</u>	<u>(488,098)</u>	<u>-</u>	<u>-</u>	<u>(7,302,480)</u>
Net Fixed Assets	<u>\$ 14,723,688</u>	<u>\$ (218,846)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,504,842</u>

Capital asset activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Additions	Transfers	Deletions	Ending Balance
Fixed Assets:					
Land and Improvements	\$ 426,455	\$ -	\$ -	\$ -	\$ 426,455
Water and Sewer Plant	20,595,491	31,834	-	-	20,627,325
Water Treatment	484,290	-	-	-	484,290
Total Fixed Assets	<u>21,506,236</u>	<u>31,834</u>	<u>-</u>	<u>-</u>	<u>21,538,070</u>
Less Accumulated Depreciation:					
Water and Sewer Plant	(6,051,291)	(461,755)	-	-	(6,513,046)
Water Treatment	(285,193)	(16,143)	-	-	(301,336)
Total Depreciation	<u>(6,336,484)</u>	<u>(477,898)</u>	<u>-</u>	<u>-</u>	<u>(6,814,382)</u>
Net Fixed Assets	<u>\$ 15,169,752</u>	<u>\$ (446,064)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,723,688</u>

Note 3. Revenue:

Ordinances 06-03 and 06-02 were approved by the voters extending the ½% sales tax until April 2037, in conjunction with the 2007 bond issuance, in order to pay for water and sewer department improvements.

Note 4. Risk Management:

Significant losses are covered by commercial insurance. There has been no significant reduction in insurance coverage. Any settlement amounts have not exceeded insurance coverage for the current year.

GLENWOOD WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Note 5. Public Fund Deposits and Investments:

State law generally requires that Department funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits.

Public funds may also be invested in direct obligations of the United States of America and obligations, where the principal and interest on which are fully guaranteed by the United States of America. All cash funds of the Department are deposited in accounts in the name of Glenwood Water and Sewer Department in financial institutions permitted by law.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. Glenwood Water and Sewer Department does not have a policy for custodial credit risk. The carrying value of the Departments' accounts and investments at December 31, 2019 was \$2,025,837. On that date, deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$2,023,372 before adjustment for outstanding items.

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

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

Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for Glenwood Water and Sewer Department's accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Glenwood accounts and investments at a financial institution. At December 31, 2019, securities with a total fair market value of \$1,725,611 were pledged as collateral by financial institutions and held by the pledging agent in the Department's name.

Investment Interest Rate Risk: Glenwood Water and Sewer Department does not have an investment interest rate risk. All investments are certificates of deposit with maturities up to 36 months and the Department is under no obligation to renew upon maturity.

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

Foreign Currency Risk: Glenwood Water and Sewer Department has no exposure to foreign currency risk.

GLENWOOD WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

Note 6. Long-Term Debt:

The water and sewer revenue bonds are secured by a pledge of funds in the revenue bond fund and the revenues of the department as well as a mortgage lien on the water and sewer facilities. An analysis of the long-term debt is as follows:

	2019	2018
<p>Note payable - Natural Resource Commission, interest on advances at 2.5% to be converted to a Bond on April 5, 2007. Secured by water and sewer revenue on the first \$6,000,000 in debt. To be repaid from the pledge of one-quarter cent sales and use tax. Total amount of commitment \$6,750,000. Amortized over a thirty-year period beginning April 5, 2007. Maturing in 2037. Current portion \$200,740.</p>	\$ 4,749,196	\$ 4,943,090
<p>Bond payable - Natural Resource Commission, 3.25% interest payable \$51,292 semi-annually principal and interest beginning October 15, 2008 for twenty years. Secured by pledge of sales and use tax, the net water and sewer revenues and plant and equipment of the department. This pledge is subordinate to all prior bonds. Maturing in 2028. Current portion \$77,372.</p>	794,944	869,861
<p>Bond payable - Natural Resource Commission, 3.25% interest payable \$102,564 semi-annually beginning October 15, 2007 for twenty years. Secured by pledge of sales and use tax, the net water and sewer revenues, and plant and equipment of the department. This pledge is subordinate to all prior bonds. Maturing in 2027. Current portion \$162,367.</p>	1,356,001	1,513,217
<p>Bond payable - Natural Resources Commission 1.75% interest payable semi-annually beginning April 15, 2009 for twenty years. Secured by pledge of sales and use tax, the net water and sewer revenues, and plant and equipment of the department. This pledge is subordinate to all prior bonds. Maturing in 2029. Current portion \$169,002.</p>	1,974,583	2,139,032
<p>Bond payable - Arkansas Development Finance Authority, 0% interest, 1% service fee, payable \$12,440 semi-annually beginning April 15, 2012 for 20 years. Secured by pledge of sales and use tax, the net water and sewer revenues, and plant and equipment of the department. This pledge is subordinate to all prior bonds. Maturing in 2032. Current portion \$22,128.</p>	280,701	302,609
	9,155,425	9,767,809
<p>Less portion considered current</p>	(631,609)	(612,384)
<p>Total long-term debt</p>	\$ 8,523,816	\$ 9,155,425

Bond issuance costs, bond discounts, and the difference between the reacquisition price and the net carrying value of proprietary debt are capitalized and amortized over the terms of the respective bonds using a method which approximates the effective interest method.

GLENWOOD WATER AND SEWER DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2019

Note 6. Long-Term Debt: (Continued)

Maturities of long-term debt are as follows:

	Principal	Interest	Total
Year Ending December 31:			
2020	\$ 631,609	\$ 288,353	\$ 919,962
2021	651,452	268,510	919,962
2022	671,936	248,026	919,962
2023	693,080	226,882	919,962
2024	714,902	205,060	919,962
Thereafter	5,792,446	1,444,780	7,237,226
	\$ 9,155,425	\$2,681,611	\$11,837,036

The city council has approved various construction projects to upgrade the water and sewer department of the city and the neighboring city of Norman.

Significant restrictive covenants on long-term debt include:

- Maintaining and preserving the distribution system.
- Maintaining insurance policies.
- Providing audited financial statements to the bondholder within 120 days of year-end, unless an extension is granted.

The covenants listed above are not intended to represent all restrictive covenants related to the debts. For a complete list, the debt agreement should be inspected.

Management is not aware of any violations of restrictive covenants related to long-term debt.

Note 7. Post-Retirement Benefit Plans:

The City of Glenwood maintains a 457(b) salary reduction plan and a 401(a) retirement plan. All full-time employees that have worked three full months are eligible to participate. The 457(b) plan is a tax-deferred plan that requires no contribution by the Department and employees elect how much of their compensation is deferred (contributed) to the plan. The City contributes 2% of gross wages to the 401(a) plan.

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council and Management
Glenwood, 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 Glenwood Water and Sewer Department as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Glenwood Water and Sewer Department'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 Glenwood Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Glenwood Water and Sewer Department'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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Glenwood Water and Sewer Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Turner, Rodgers, Manning & Plyler, PLLC

Arkadelphia, Arkansas

June 30, 2020

GLENWOOD WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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Summary of Auditor's Results

The auditor's report expresses an unqualified opinion on the financial statements of Glenwood Water and Sewer Department ("the Department").

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

No instances of noncompliance material to the financial statements of the Department were disclosed during the audit.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

N/A

SUPPLEMENTARY INFORMATION

GLENWOOD WATER AND SEWER DEPARTMENT
 BUDGETARY COMPARISON SCHEDULE
 FOR YEAR ENDED DECEMBER 31, 2019

SCHEDULE I
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	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES:			
Water Revenue	\$ 1,013,000	\$ 1,129,404	\$ 116,404
Sewer Revenue	339,000	406,371	67,371
Penalties	20,000	21,800	1,800
Connection Fees	16,000	30,846	14,846
Sales Tax Revenue	562,609	552,896	(9,713)
Miscellaneous Income	5,000	5,919	919
TOTAL OPERATING REVENUES	<u>1,955,609</u>	<u>2,147,236</u>	<u>191,627</u>
OPERATING EXPENSES:			
Salaries	188,100	170,554	17,546
Utilities	138,000	166,514	(28,514)
Insurance	62,400	59,058	3,342
Maintenance	269,500	266,466	3,034
Office Expense	8,000	13,730	(5,730)
Depreciation	645,068	488,098	156,970
Miscellaneous	46,000	95,919	(49,919)
TOTAL OPERATING EXPENSES	<u>1,357,068</u>	<u>1,260,339</u>	<u>96,729</u>
OPERATING INCOME (LOSS)	<u>598,541</u>	<u>886,897</u>	<u>288,356</u>
OTHER INCOME (EXPENSES):			
Interest Revenue	2,000	13,986	11,986
Amortization of Debt Issuance Costs	-	(8,555)	(8,555)
Interest Expense	(312,800)	(317,082)	(4,282)
TOTAL OTHER INCOME (EXPENSES)	<u>(310,800)</u>	<u>(311,651)</u>	<u>(851)</u>
NET INCOME (LOSS)	<u>\$ 287,741</u>	<u>\$ 575,246</u>	<u>\$ 287,505</u>

See Independent Auditors' Report.