

**CITY OF WILSON WATERWORKS AND SEWER FUND
A COMPONENT UNIT OF THE CITY OF WILSON, ARKANSAS
Audited Financial Statements and Supplementary Information
For the Years Ended December 31, 2023 and 2022**

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City of Wilson Waterworks and Sewer Fund
A Component Unit of the City of Wilson, Arkansas
Audited Financial Statements and Supplementary Information
For the Years Ended December 31, 2023 and 2022

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THOMAS, SPEIGHT & NOBLE

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Edward B. Bell, Mayor
And the Members of the City Council
City of Wilson, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Wilson Waterworks and Sewer Fund, a component unit of the City of Wilson, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Wilson Waterworks and Sewer Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Wilson Waterworks and Sewer Fund, as of December 31, 2023 and 2022, and the respective 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.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Wilson Waterworks and Sewer Fund and are not intended to present fairly the financial position of the City of Wilson, Arkansas, and the results of its operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Wilson, Arkansas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Wilson Waterworks and Sewer Fund, a component unit of the City of Wilson, Arkansas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wilson Waterworks and Sewer Fund's basic financial statements. The budgetary comparison is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 15, 2024, on our consideration of the City of Wilson Waterworks and Sewer Fund'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 City of Wilson Waterworks and Sewer Fund's internal control over financial reporting and compliance.

Thomas, Speight & Noble, CPAs

Osceola, Arkansas

June 15, 2024

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Statements of Net Position
December 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 201,242	\$ 143,292
Customer accounts receivable, net	62,869	36,992
Prepaid insurance	1,150	964
Total current assets	265,261	181,248
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	87,484	86,449
Capital assets		
Capital assets, net of accumulated depreciation	1,715,643	1,797,721
Other assets	750	750
Total non-current assets	1,803,877	1,884,920
TOTAL ASSETS	\$ 2,069,138	\$ 2,066,168
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 4,907	\$ 1,010
Due to other funds	23,779	22,853
Accrued interest	1,858	1,858
Current portion of long-term debt	53,754	51,800
Total current liabilities	84,298	77,521
LONG-TERM DEBT, net of current portion	842,776	897,281
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	41,247	39,534
TOTAL LIABILITIES	968,321	1,014,336
NET POSITION		
Net investment in capital assets	819,113	848,639
Restricted for debt service	44,650	44,003
Restricted for capital outlays	11,898	11,867
Unrestricted	225,156	147,323
Total net position	1,100,817	1,051,832
TOTAL LIABILITIES AND NET POSITION	\$ 2,069,138	\$ 2,066,168

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

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water revenue	\$ 131,138	\$ 132,662
Sewer revenue	105,930	105,705
Miscellaneous income	7,483	11,683
Total operating revenues	<u>244,551</u>	<u>250,050</u>
OPERATING EXPENSES		
Contract labor	24,450	21,800
Supplies	16,137	26,796
Utilities	29,269	23,164
Insurance	14,285	11,952
Professional fees	7,800	7,425
System repairs	34,682	170,284
Postage	1,449	1,218
Depreciation	82,078	79,987
Permits and licenses	2,857	2,795
Water sampling	6,795	3,370
Travel	192	1,611
Rent	1,448	-
Miscellaneous	4,732	5,529
Total operating expenses	<u>226,174</u>	<u>355,931</u>
OPERATING INCOME (LOSS)	<u>18,377</u>	<u>(105,881)</u>
NON-OPERATING REVENUES (EXPENSES)		
Grant income	23,000	-
Loan reimbursements	36,196	36,196
Interest income	887	248
Interest expense	(29,475)	(36,410)
Total Non-operating revenues (expenses)	<u>30,608</u>	<u>34</u>
CHANGE IN NET POSITION	48,985	(105,847)
NET POSITION AT BEGINNING OF YEAR	<u>1,051,832</u>	<u>1,157,679</u>
NET POSITION AT END OF YEAR	<u>\$ 1,100,817</u>	<u>\$ 1,051,832</u>

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

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 220,387	\$ 240,951
Cash payments (to) from suppliers for goods and services	(140,385)	(417,349)
Net cash provided by (used in) operating activities	80,002	(176,398)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(52,551)	(70,300)
Interest payments on long-term debt	(29,475)	(36,410)
Purchase of capital assets	-	(48,350)
Proceeds from sale of capital assets	-	4,500
Payments received from (paid to) related parties	37,122	48,517
Net cash provided by (used in) financing activities	(44,904)	(102,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	887	248
Grants received	23,000	-
Net cash provided by (used in) investing activities	23,887	248
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	58,985	(278,193)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	229,741	507,934
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 288,726	\$ 229,741
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 18,377	\$ (105,881)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	82,078	79,987
(Increase)/Decrease In:		
Customer accounts receivable	(25,877)	(12,251)
Prepaid insurance	(186)	(176)
Increase/(Decrease) In:		
Accounts payable	3,897	(141,229)
Customer deposits	1,713	3,152
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 80,002	\$ (176,398)

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

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Organization

The City of Wilson Waterworks and Sewer Fund (the Utility), a component unit of the City of Wilson, Arkansas (the City) was established to provide water and sewer services to the residents of the City. The Utility is a component unit of the City and dependent on the City's governing body. Control by and dependence upon the City was determined on the basis of the budget adoption to fund any deficit that may occur. The accompanying financial statements represent only the activities of the Utility and are not intended to present that of the City or any of the City's activities.

Basis of Presentation and Accounting

The accounts of the Utility are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Utility's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises; revenues are recorded when earned and expenses are recorded when incurred. Net position is segregated into net investment in capital assets, restricted, and unrestricted components.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Utility considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Customer Accounts Receivable

The Utility carries its customer accounts receivable at cost, less an allowance for doubtful accounts. On a periodic basis, management evaluates accounts receivable balances and establishes an allowance for doubtful accounts based on history of past write offs, collections, and current credit considerations.

Cash and Cash Equivalents - Restricted

Certain proceeds of the Utility's revenue, as well as certain resources set aside for the bond repayment and bond agreement requirements are classified as cash and cash equivalents - restricted on the statement of net position, because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Funds set aside to refund customer deposits are classified as cash and cash equivalents - restricted since their use is limited for that purpose.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Utility defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred.

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Distribution system	40 Years
Pumps, vehicles and small equipment	5-8 Years
Property improvements	15 Years

Other Assets

Other assets held are recorded and accounted for at cost.

Customer Deposits

Customer deposits are non-interest bearing and are held until the customer's service is terminated, at which time the deposit is applied to the final bill.

Compensated Absences

Employees are entitled to certain compensated absences based on their length of employment. With minor exceptions, compensated absences either vest or accumulate. Vacation days not used by the end of the year are not carried forward. Compensated absences have not been accrued and are not material to the financial statements.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is the Utility's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Unrestricted net assets – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

**City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022**

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (CONTINUED)

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the City adopts an annual budget for the Utility. The budget is adopted under a basis consistent with GAAP. All annual appropriations lapse at year-end.

NOTE 2: CUSTOMER ACCOUNTS RECEIVABLE

Customer accounts receivable, net as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Customer accounts receivable	\$ 65,220	\$ 39,343
Allowance for doubtful accounts	(2,351)	(2,351)
Customer accounts receivable, net	<u>\$ 62,869</u>	<u>\$ 36,992</u>

NOTE 3: DUE TO OTHER FUNDS

Billing of garbage fees, mosquito control, and fire protection fees is accomplished through the Utility's monthly billing process. At December 31, 2023 and 2022, garbage and mosquito fees in the amount of \$23,411 and \$22,574, respectively were owed to the General Fund and fire protection fees in the amount of \$368 and \$279, respectively were owed to the fire department.

NOTE 4: CASH AND CASH EQUIVALENTS – RESTRICTED

Cash and cash equivalents - restricted consists of cash reserves restricted by capital contributions, long-term debt covenants and customer deposits. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 7).

	<u>2023</u>	<u>2022</u>
Customer deposits	\$ 30,936	\$ 30,579
Debt service reserves	44,650	44,003
Capital contributions	11,898	11,867
	<u>\$ 87,484</u>	<u>\$ 86,449</u>

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2023 and 2022 are as follows:

	<u>Balance</u> <u>1/1/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2023</u>
Capital assets being depreciated				
Pumps and small equipment	\$ 353,573	\$ -	\$ -	\$ 353,573
Property improvements	7,000	-	-	7,000
Distribution system	<u>3,696,942</u>	<u>-</u>	<u>-</u>	<u>3,696,942</u>
Less: accumulated depreciation				
Total capital assets being depreciated	4,057,515	-	-	4,057,515
Less accumulated depreciation for:				
Pumps and small equipment	(259,615)	(9,532)	-	(269,147)
Property improvements	(2,295)	(467)	-	(2,762)
Distribution system	<u>(1,997,884)</u>	<u>(72,079)</u>	<u>-</u>	<u>(2,069,963)</u>
Total accumulated depreciation	<u>(2,259,794)</u>	<u>(82,078)</u>	<u>-</u>	<u>(2,341,872)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 1,797,721</u>	<u>\$ (82,078)</u>	<u>\$ -</u>	<u>\$ 1,715,643</u>
	<u>Balance</u> <u>1/1/2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2022</u>
Capital assets being depreciated				
Pumps and small equipment	\$ 347,573	\$ 9,000	\$ 3,000	\$ 353,573
Property improvements	7,000	-	-	7,000
Distribution system	<u>3,661,442</u>	<u>35,500</u>	<u>-</u>	<u>3,696,942</u>
Less: accumulated depreciation				
Total capital assets being depreciated	4,016,015	44,500	3,000	4,057,515
Less accumulated depreciation for:				
Pumps and small equipment	(255,999)	(5,966)	2,350	(259,615)
Property improvements	(1,828)	(467)	-	(2,295)
Distribution system	<u>(1,924,330)</u>	<u>(73,554)</u>	<u>-</u>	<u>(1,997,884)</u>
Total accumulated depreciation	<u>(2,182,157)</u>	<u>(79,987)</u>	<u>2,350</u>	<u>(2,259,794)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 1,833,858</u>	<u>\$ (35,487)</u>	<u>\$ 5,350</u>	<u>\$ 1,797,721</u>

Depreciation expense was \$82,078 and \$79,987 for the years ended December 31, 2023 and 2022, respectively.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT

Long-term debt at December 31, 2023 and 2022 consists of the following:

	<u>2023</u>	<u>2022</u>
1978 - Arkansas Soil and Water Conservation note - 5.00%, \$36,000; principal and interest of \$2,098 payable annually beginning November 7, 1989; matures November 7, 2028.	9,083	10,649
1978 - Arkansas Soil and Water Conservation note - 5.00%, \$63,000; principal and interest of \$3,672 payable annually beginning May 30, 1989; matures May 30, 2028.	15,896	18,635
1991 - Water and Sewer Revenue Bond - USDA - 5.00%, \$400,000; principal and interest of \$1,948 payable monthly beginning February 1998; matures June 2032.	159,623	174,610
2000 - USDA - 4.375%, \$195,000; principal and interest of \$870 payable monthly beginning September 2002; matures July 2041.	122,936	127,879
2020 - Farmers Bank and Trust - 4.50%, \$72,275; principal and interest of \$461 payable monthly beginning April 2020; matures March 2025.	63,441	66,028
2021 - Arkansas Soil and Water Conservation note - 2.55%, \$618,000; principal and interest of \$3,290 payable monthly beginning March 2021; matures April 2040.	525,551	551,280
	<u>\$ 896,530</u>	<u>\$ 949,081</u>

All bonds are secured by revenues and distribution system of the Utility.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 6: LONG-TERM DEBT (Continued)

Analysis of changes to the Utility's long-term debt are as follows:

	2023	2022
Total long-term debt at beginning of year	\$ 949,081	\$ 1,019,381
Additional borrowings	-	-
Debt retirements	(52,551)	(70,300)
Total long-term debt at the end of the year	896,530	949,081
Less current portion	(53,754)	(51,800)
 Non-current portion	 \$ 842,776	 \$ 897,281

Maturities of long-term debt at December 31, 2023 are as follows:

	Principal	Interest	Total
2024	\$ 53,754	\$ 30,855	\$ 84,609
2025	113,731	26,772	140,511
2026	54,978	24,094	79,072
2027	57,058	22,013	76,905
2028	59,225	19,847	79,072
2029-2033	261,329	67,791	329,120
2034-2038	217,830	31,799	249,629
Thereafter	78,625	3,658	82,283
	\$ 896,530	\$ 226,829	\$ 1,121,201

Interest expense was \$29,475 and \$36,410 for years ended December 31, 2023 and 2022, respectively.

NOTE 7: BOND REQUIREMENTS

The City of Wilson Waterworks and Sewer Fund must maintain certain requirements after receiving bonds from the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The USDA issued the 5.00% 1991 Waterworks and Sewer Revenue Bond Fund in the amount of \$400,000 on November 12, 1991. The City of Wilson Waterworks and Sewer Fund is required to establish a "1991 Water and Sewer Revenue Bond Fund". Commencing on the first business day of the thirteenth month after delivery of the bond, there shall be paid into the Bond Fund on the first business day of each month an amount equal to the principal and interest installment on the bond due in such month. In addition to the amount of the principal and interest installment, there shall be paid into the Bond Fund on the first business day of each month (commencing in the thirteenth month after delivery of the bond) a debt service reserve payment equal to \$195. When a debt service reserve shall have been accumulated in the Bond Fund, and so long as it shall remain, in an amount equal to the lesser of (i) \$23,376 or (ii) the maximum annual debt service requirement on the bond (the "required level"), the additional \$195 debt service reserve payment shall not be made.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2023 and 2022

NOTE 7: BOND REQUIREMENTS (Continued)

The USDA issued a 4.375% loan in the amount of \$195,000 on August 16, 2000, that is payable over a period of 40 years based on monthly installments. Interest only was charged during the first year after loan closing. The first regular monthly-amortized installment of \$870 was due on the 13th month after loan closing and monthly thereafter. If not paid before, final payment will be due 40 years from the date of loan closing. \$10,440 was to be accumulated over a period of 10 years at the rate of \$87 per month. This was in addition to any present reserve requirement.

As of December 31, 2023, the debt service requirements for the City of Wilson Waterworks and Sewer Fund have been met.

In the event of default in the payments of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained in the instruments incident to making or insuring the loan, USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Utility, incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

NOTE 8: RISK MANAGEMENT AND LITIGATION

The Utility is exposed to various risks of loss to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. Management estimates that the amount of any actual or potential claims as of December 31, 2023 and 2022 will not materially affect the financial condition of the Utility.

NOTE 9: CUSTODIAL CREDIT RISK OF BANK DEPOSITS

State law generally requires public funds be deposited in State of Arkansas banks insured by the Federal Deposit Insurance Corporation (FDIC). These deposits may be in the form of checking, savings, and/or time deposit accounts. Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Utility's policy for custodial risk is compliant with state law. Due to the dollar amounts of cash deposits and investments, and the limits of the FDIC, the Utility was required to secure additional deposits by pledging securities held by the pledging financial institution's trust department at year ended December 31, 2023. Sufficient additional pledging was secured by the Utility.

NOTE 10: MONTHLY WATER RATES

The City of Wilson Waterworks and Sewer Fund are determined each month by meter measurements. The rates for customers are as follows: \$11.75/1,000 gallons of water and for the excess of 1,000 gallons the rate is \$2.75/1,000 gallons used.

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or disclosure through June 15, 2024, the date financial statements were available to be issued.



THOMAS, SPEIGHT & NOBLE

A PROFESSIONAL ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE PRIVATE COMPANIES PRACTICE SECTION OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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 Honorable Edward B. Bell, Mayor
And the Members of the City Council of
City of Wilson, 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 City of Wilson Waterworks and Sewer Fund, a component unit of the City of Wilson, Arkansas, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Wilson Waterworks and Sewer Fund's basic financial statements and have issued our report thereon dated June 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Wilson Waterworks and Sewer Fund'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 City of Wilson Waterworks and Sewer Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Wilson Waterworks and Sewer Fund'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2023-001 that we consider to be material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Wilson Waterworks and Sewer Fund'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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Wilson Waterworks and Sewer Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Wilson, Arkansas's response to the findings identified above. Management has responded and indicated that financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Thomas, Speight & Noble, CPAs

Thomas, Speight & Noble, CPAs
Osceola, Arkansas
June 15, 2024

City of Wilson Water and Sewer Department
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Any material weakness(es) identified?

Yes No

Any significant deficiency(ies) identified?

Yes No

Any noncompliance material to financial statements noted?

Yes No

Section II - Financial Statement Findings

Finding: 2023-001

Material Weakness - Internal Control over Financial Reporting

Segregation of duties

Condition: City of Wilson Water and Sewer Department does not have enough employees for the appropriate segregation of duties necessary for effective internal controls.

Criteria: Segregation of duties provides for independent review and approval of all transactions at various stages of the financial reporting process. Adequate segregation of duties is an essential part of an effective internal control structure.

Effect: Inadequate segregation of duties reduces the Department's internal control over financial reporting, processing of transactions and safeguarding of assets.

Recommendation: The Department's management should review all transactions, accounting records, and reconciliations in order to compensate for the limited number of employees. Such a review should be performed at least monthly and documented.

Views of responsible officials and planned corrective actions: Additional employees for the purpose of improving internal controls would not be cost-beneficial. Currently, all employees are supervised by management, and financial records and reports are reviewed monthly.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Budgetary Comparison
For the Year Ended December 31, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Water revenue	\$ 120,000	\$ 131,138	\$ 11,138
Sewer revenue	95,000	105,930	10,930
Federal health fee	2,500	2,130	(370)
Water/Sewer connection	2,000	1,750	(250)
Miscellaneous income	45,000	39,801	(5,199)
Total operating revenues	<u>264,500</u>	<u>280,749</u>	<u>16,249</u>
OPERATING EXPENSES			
Contract labor	25,000	24,450	550
Supplies	15,000	16,137	(1,137)
Utilities	32,000	29,269	2,731
Insurance	15,000	14,285	715
Professional fees	8,000	7,800	200
System repairs	37,000	34,682	2,318
Postage	1,500	1,449	51
Computer expense	200	-	200
Depreciation	40,000	82,078	(42,078)
Permits and licenses	3,000	2,857	143
Water sampling	7,000	6,795	205
Travel	1,500	192	1,308
Bad debt	1,000	-	1,000
Dues and subscriptions	1,500	1,419	81
Health department charges	2,500	3,082	(582)
Rent	1,500	1,448	52
Miscellaneous	500	233	267
Total operating expenses	<u>192,200</u>	<u>226,176</u>	<u>(33,976)</u>
OPERATING INCOME (LOSS)	72,300	54,573	(17,727)
NON-OPERATING REVENUES (EXPENSES)			
Grant income	-	23,000	23,000
Interest income	500	887	387
Interest expense	(20,000)	(29,475)	(9,475)
Total Non-operating revenues (expenses)	<u>(19,500)</u>	<u>(5,588)</u>	<u>13,912</u>
CHANGE IN NET POSITION	<u>\$ 52,800</u>	<u>\$ 48,985</u>	<u>\$ (3,815)</u>
NET POSITION AT BEGINNING OF YEAR		<u>1,051,832</u>	
NET POSITION AT END OF YEAR		<u><u>\$ 1,100,817</u></u>	