

**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, 2022 and 2021**

**Thomas, Speight & Noble
Certified Public Accountants
1400 West Keiser
Osceola, Arkansas 72370
(870) 563-2638**

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, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

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 May 15, 2023, 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

May 15, 2023

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 143,292	\$ 60,464
Customer accounts receivable, net	36,992	24,741
Prepaid insurance	964	788
Total current assets	<u>181,248</u>	<u>85,993</u>
NON-CURRENT ASSETS		
Cash and cash equivalents - restricted	86,449	447,470
Capital assets		
Capital assets, net of accumulated depreciation	1,797,721	1,833,858
Other assets	750	750
Total non-current assets	<u>1,884,920</u>	<u>2,282,078</u>
TOTAL ASSETS	<u><u>\$ 2,066,168</u></u>	<u><u>\$ 2,368,071</u></u>
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 1,010	\$ 2,180
Due to other funds	22,853	10,532
Accrued interest	1,858	1,858
Current portion of long-term debt	51,800	72,147
Total current liabilities	<u>77,521</u>	<u>86,717</u>
LONG-TERM DEBT, net of current portion	897,281	947,234
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer deposits	39,534	36,382
Accounts payable - capital improvements	<u>-</u>	<u>140,059</u>
TOTAL LIABILITIES	1,014,336	1,210,392
NET POSITION		
Net investment in capital assets	848,639	814,476
Restricted for debt service	44,003	43,357
Restricted for capital outlays	11,867	233,613
Unrestricted	147,323	66,233
Total net position	<u>1,051,832</u>	<u>1,157,679</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 2,066,168</u></u>	<u><u>\$ 2,368,071</u></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 Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water revenue	\$ 132,662	\$ 90,843
Sewer revenue	105,705	68,289
Miscellaneous income	11,683	10,732
Total operating revenues	<u>250,050</u>	<u>169,864</u>
OPERATING EXPENSES		
Salaries and wages	-	600
Payroll taxes	-	46
Contract labor	21,800	17,150
Supplies	26,796	26,326
Utilities	23,164	21,829
Insurance	11,952	11,009
Professional fees	7,425	3,535
System repairs	170,284	5,115
Postage	1,218	997
Depreciation	79,987	51,383
Permits and licenses	2,795	2,854
Water sampling	3,370	4,685
Travel	1,611	920
Rent	-	627
Miscellaneous	5,529	4,272
Total operating expenses	<u>355,931</u>	<u>151,348</u>
OPERATING INCOME (LOSS)	<u>(105,881)</u>	<u>18,516</u>
NON-OPERATING REVENUES (EXPENSES)		
Grant income	-	662,555
Loan reimbursements	36,196	36,196
Interest income	248	165
Interest expense	(36,410)	(35,205)
Total Non-operating revenues (expenses)	<u>34</u>	<u>663,711</u>
CHANGE IN NET POSITION	(105,847)	682,227
NET POSITION AT BEGINNING OF YEAR	<u>1,157,679</u>	<u>475,452</u>
NET POSITION AT END OF YEAR	<u><u>\$ 1,051,832</u></u>	<u><u>\$ 1,157,679</u></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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 240,951	\$ 172,764
Cash payments (to) from suppliers for goods and services	(417,349)	42,502
Cash payments to employees	-	(600)
Net cash provided by (used in) operating activities	<u>(176,398)</u>	<u>214,666</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on long-term debt	(70,300)	(46,321)
Interest payments on long-term debt	(36,410)	(35,203)
Purchase of capital assets	(48,350)	(1,081,012)
Proceeds from sale of capital assets	4,500	-
Proceeds of long-term debt	-	618,000
Payments received from (paid to) related parties	48,517	30,517
Net cash provided by (used in) financing activities	<u>(102,043)</u>	<u>(514,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	248	165
Grants received	-	662,551
Net cash provided by (used in) investing activities	<u>248</u>	<u>662,716</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(278,193)	363,363
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>507,934</u>	<u>144,571</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 229,741</u>	<u>\$ 507,934</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (105,881)	\$ 18,516
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	79,987	51,383
(Increase)/Decrease In:		
Customer accounts receivable	(12,251)	(1,702)
Prepaid insurance	(176)	(43)
Increase/(Decrease) In:		
Accounts payable	(141,229)	142,549
Payroll taxes payable	-	(638)
Customer deposits	3,152	4,601
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (176,398)</u>	<u>\$ 214,666</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)
Notes to Financial Statements
December 31, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021

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, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Customer accounts receivable	\$ 39,343	\$ 27,092
Allowance for doubtful accounts	(2,351)	(2,351)
Customer accounts receivable, net	<u>\$ 36,992</u>	<u>\$ 24,741</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, 2022 and 2021, garbage and mosquito fees in the amount of \$22,574 and \$10,450, respectively were owed to the General Fund and fire protection fees in the amount of \$279 and \$82, 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>2022</u>	<u>2021</u>
Customer deposits	\$ 30,579	\$ 30,408
Debt service reserves	44,003	43,357
Capital contributions	11,867	373,705
	<u>\$ 86,449</u>	<u>\$ 447,470</u>

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 5: CAPITAL ASSETS

A summary of changes in capital assets for the years ended December 31, 2022 and 2021 are as follows:

	<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>
	<u>Balance</u> <u>1/1/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2021</u>
Capital assets being depreciated				
Pumps and small equipment	\$ 334,309	\$ 13,264	\$ -	\$ 347,573
Property improvements	7,000	-	-	7,000
Distribution system	<u>2,523,344</u>	<u>1,138,098</u>	<u>-</u>	<u>3,661,442</u>
Less: accumulated depreciation				
 Total capital assets being depreciated	 2,864,653	 1,151,362	 -	 4,016,015
Less accumulated depreciation for:				
Pumps and small equipment	(251,548)	(4,451)	-	(255,999)
Property improvements	(1,361)	(467)	-	(1,828)
Distribution system	<u>(1,877,865)</u>	<u>(46,465)</u>	<u>-</u>	<u>(1,924,330)</u>
Total accumulated depreciation	<u>(2,130,774)</u>	<u>(51,383)</u>	<u>-</u>	<u>(2,182,157)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 733,879</u>	<u>\$ 1,099,979</u>	<u>\$ -</u>	<u>\$ 1,833,858</u>

Depreciation expense was \$79,987 and \$51,383 for the years ended December 31, 2022 and 2021, respectively.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 6: LONG-TERM DEBT

Long-term debt at December 31, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</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.	10,649	12,140
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.	18,635	21,245
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.	174,610	188,867
2000 - USDA - 4.375%, \$195,000; principal and interest of \$870 payable monthly beginning September 2002; matures July 2041.	127,879	132,612
2020 - Farmers Bank and Trust - 4.50%, \$72,275; principal and interest of \$461 payable monthly beginning April 2020; matures March 2025.	66,028	68,500
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.	551,280	596,017
	<u>\$ 949,081</u>	<u>\$1,019,381</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, 2022 and 2021

NOTE 6: LONG-TERM DEBT (Continued)

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

	<u>2022</u>	<u>2021</u>
Total long-term debt at beginning of year	\$ 1,019,381	\$ 447,702
Additonal borrowings	-	618,000
Debt retirements	<u>(70,300)</u>	<u>(46,321)</u>
Total long-term debt at the end of the year	949,081	1,019,381
Less current portion	<u>(51,800)</u>	<u>(72,147)</u>
Non-current portion	<u>\$ 897,281</u>	<u>\$ 947,234</u>

Maturities of long-term debt at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 51,800	\$ 32,809	\$ 84,609
2024	53,754	30,855	84,609
2025	113,739	26,772	140,511
2026	54,978	24,094	79,072
2027	57,058	19,847	76,905
Thereafter	<u>617,752</u>	<u>123,095</u>	<u>740,847</u>
	<u>\$ 949,081</u>	<u>\$ 257,472</u>	<u>\$ 1,206,553</u>

Interest expense was \$36,410 and \$35,205 for years ended December 31, 2022 and 2021, 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.

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.

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Notes to Financial Statements
December 31, 2022 and 2021

NOTE 7: BOND REQUIREMENTS (Continued)

As of December 31, 2022, 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, 2022 and 2021 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, 2022. 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 May 15, 2023, 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, 2022 and 2021, 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 May 15, 2023.

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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

2022-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The City of Wilson Waterworks and Sewer Fund's management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend the financial accounting duties be segregated among employees to the extent possible.

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
May 15, 2023

City of Wilson Waterworks and Sewer Fund
(A Component Unit of the City of Wilson, Arkansas)
Budgetary Comparison
For the Year Ended December 31, 2022

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Water revenue	\$ 107,500	\$ 132,662	\$ 25,162
Sewer revenue	90,000	105,705	15,705
Federal health fee	2,500	1,722	(778)
Water/Sewer connection	2,000	1,200	(800)
Miscellaneous income	40,000	44,957	4,957
Total operating revenues	<u>242,000</u>	<u>286,246</u>	<u>44,246</u>
OPERATING EXPENSES			
Salaries and wages	500	-	500
Contract labor	22,000	21,800	200
Supplies	30,000	26,796	3,204
Utilities	27,000	23,164	3,836
Insurance	13,000	11,952	1,048
Professional fees	7,500	7,425	75
System repairs	15,000	170,284	(155,284)
Postage	1,500	1,218	282
Computer expense	200	-	200
Depreciation	40,000	79,987	(39,987)
Permits and licenses	3,000	2,795	205
Water sampling	5,000	3,370	1,630
Travel	1,500	1,611	(111)
Bad debt	1,000	-	1,000
Dues and subscriptions	1,500	1,360	140
Health department charges	2,500	1,673	827
Rent	600	-	600
Miscellaneous	2,500	2,496	4
Total operating expenses	<u>174,300</u>	<u>355,931</u>	<u>(181,633)</u>
OPERATING INCOME (LOSS)	67,700	(69,685)	(137,385)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	500	248	(252)
Interest expense	(20,000)	(36,410)	(16,410)
Total Non-operating revenues (expenses)	<u>(19,500)</u>	<u>(36,162)</u>	<u>(16,662)</u>
CHANGE IN NET POSITION	<u>\$ 48,200</u>	<u>\$ (105,847)</u>	<u>\$ (154,047)</u>
NET POSITION AT BEGINNING OF YEAR		<u>1,157,679</u>	
NET POSITION AT END OF YEAR		<u>\$ 1,051,832</u>	