

**City of Wooster**  
**Water Service Department**  
*(a component unit of the City of Wooster, Arkansas)*

**Financial Report**  
with Independent Auditor's Report

**December 31, 2020 and 2019**

**City of Wooster Water Service Department**  
*(a component unit of the City of Wooster, Arkansas)*

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John S. Brock | Jake Froemsdorf | Jaye Gasaway | Rocky Goodman | Greg Schichtl | J. Michael Tuohey

## **Independent Auditor's Report**

To the City Council  
City of Wooster Water Service Department  
Wooster, Arkansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Wooster Water Service Department, a component unit of the City of Wooster, Arkansas, as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the table of contents. The financial statements of City of Wooster Water Service Department as of December 31, 2019, and for the year then ended were audited by other auditors who issued an unqualified opinion dated October 23, 2020.

### **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 an opinion 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 the 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the City of Wooster Water Service Department as of December 31, 2020, and the results of changes in financial position, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplemental Information*

Management has omitted the Management's Discussion and Analysis (MD&A) 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2022, on our consideration of City of Wooster Water Service Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Wooster Water Service Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Wooster Water Service Department's internal control over financial reporting and compliance.

*Garland & Greenwood CPAs and Advisors, PLLC*  
Conway, Arkansas

February 18, 2022

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Statements of Net Position

| December 31                                   | 2020                | 2019                |
|---|---------------------|---------------------|
| <b>Assets</b>                                 |                     |                     |
| <i>Current Assets</i>                         |                     |                     |
| Cash and cash equivalents                     | \$ 774,809          | \$ 825,275          |
| Accounts receivable - net                     | 104,013             | 100,530             |
| Accrued water revenue                         | 32,152              | 32,687              |
| Prepaid expenses and construction costs       | 965                 | 14,740              |
| Supplies                                      | 12,396              | 18,518              |
| <b>Total Current Assets</b>                   | <b>924,335</b>      | <b>991,750</b>      |
| <i>Restricted Assets</i>                      |                     |                     |
| Cash - depreciation reserve fund              | 100,597             | 64,218              |
| Cash - debt service reserve fund              | 81,358              | 71,690              |
| Cash - construction fund                      | 0                   | 194                 |
| <b>Total Restricted Assets</b>                | <b>181,955</b>      | <b>136,102</b>      |
| <i>Capital Assets</i>                         |                     |                     |
| <i>Non-depreciable Capital Assets</i>         |                     |                     |
| Land  | 31,883              | 25,453              |
| Work in progress                              | 608,157             | 450,214             |
| <b>Total Non-depreciable Capital Assets</b>   | <b>640,040</b>      | <b>475,667</b>      |
| <i>Depreciable Capital Assets</i>             |                     |                     |
| Office building                               | 117,116             | 117,116             |
| Sewer equipment                               | 40,373              | 40,373              |
| Water equipment                               | 1,141,222           | 1,108,366           |
| Water system                                  | 4,996,811           | 4,961,597           |
| <b>Total Depreciable Capital Assets</b>       | <b>6,295,522</b>    | <b>6,227,452</b>    |
| Less: accumulated depreciation                | 1,887,011           | 1,703,509           |
| <b>Total Depreciable Capital Assets - Net</b> | <b>4,408,511</b>    | <b>4,523,943</b>    |
| <b>Total Capital Assets</b>                   | <b>5,048,551</b>    | <b>4,999,610</b>    |
| <b>Total Assets</b>                           | <b>\$ 6,154,841</b> | <b>\$ 6,127,462</b> |

See independent auditor's report and the accompanying notes to the financial statements.

| December 31                                     | 2020                | 2019                |
|---|---------------------|---------------------|
| <b>Liabilities</b>                              |                     |                     |
| <i>Current Liabilities</i>                      |                     |                     |
| Accounts payable                                | \$ 83,403           | \$ 90,430           |
| Interest payable                                | 14,934              | 14,673              |
| Payroll taxes and withholdings payable          | 3,072               | 9,091               |
| Sales tax payable                               | 6,766               | 6,272               |
| Wages payable                                   | 2,004               | 4,820               |
| Vacation payable                                | 7,054               | 7,054               |
| Long-term debt - current portion                | 182,982             | 154,871             |
| <b>Total Current Liabilities</b>                | <b>300,215</b>      | <b>287,211</b>      |
| <i>Long-Term Liabilities</i>                    |                     |                     |
| Customer meter deposits                         | 164,438             | 154,763             |
| Long-term debt - less current maturities        | 3,269,994           | 3,425,155           |
| <b>Total Long-Term Liabilities</b>              | <b>3,434,432</b>    | <b>3,579,918</b>    |
| <b>Net Position</b>                             |                     |                     |
| Invested in capital assets, net of related debt | 1,595,575           | 1,419,584           |
| Restricted                                      | 181,955             | 136,102             |
| Unrestricted                                    | 642,664             | 704,647             |
| <b>Total Net Position</b>                       | <b>2,420,194</b>    | <b>2,260,333</b>    |
| <b>Total Liabilities and Net Position</b>       | <b>\$ 6,154,841</b> | <b>\$ 6,127,462</b> |

See independent auditor's report and the accompanying notes to the financial statements.

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Statements of Revenues, Expenses, and Changes in Net Position

| For the Years Ended December 31                | 2020                | 2019                |
|--|---------------------|---------------------|
| <b>Operating Revenues</b>                      |                     |                     |
| Water revenues                                 | \$ 1,183,911        | \$ 1,124,543        |
| Late fees                                      | 16,821              | 17,864              |
| Fee and permit revenue                         | 103,660             | 76,900              |
| <b>Total Operating Revenues</b>                | <b>1,304,392</b>    | <b>1,219,307</b>    |
| <b>Operating Expenses</b>                      |                     |                     |
| Bad debts                                      | 38                  | 1,494               |
| Cell phone badger meters                       | 4,190               | 6,062               |
| Debit and credit card fees                     | 4,522               | 3,482               |
| Depreciation                                   | 183,502             | 156,375             |
| Donations                                      | 0                   | 6,076               |
| Fuel and oil                                   | 14,291              | 16,902              |
| Insurance                                      | 33,755              | 32,321              |
| Miscellaneous                                  | 431                 | 4,012               |
| Office supplies                                | 1,942               | 1,304               |
| Payroll taxes                                  | 20,958              | 20,174              |
| Postage  | 6,855               | 6,633               |
| Professional fees and dues                     | 24,474              | 27,832              |
| Repairs and maintenance                        | 108,954             | 90,105              |
| Retirement                                     | 4,887               | 4,129               |
| Salaries and wages                             | 285,107             | 239,222             |
| Uniforms                                       | 930                 | 1,772               |
| Utilities and telephone                        | 17,996              | 15,260              |
| Water purchases                                | 347,039             | 335,471             |
| <b>Total Operating Expenses</b>                | <b>1,059,871</b>    | <b>968,626</b>      |
| <b>Operating Income</b>                        | <b>244,521</b>      | <b>250,681</b>      |
| <b>Non-Operating Revenues (Expenses)</b>       |                     |                     |
| Loss on asset disposal                         | 0                   | (35,752)            |
| Interest income                                | 8,806               | 6,608               |
| Debt issue costs                               | 0                   | (6,000)             |
| Interest expense                               | (93,466)            | (71,286)            |
| <b>Total Non-Operating Revenues (Expenses)</b> | <b>(84,660)</b>     | <b>(106,430)</b>    |
| <b>Change in Net Position</b>                  | <b>159,861</b>      | <b>144,251</b>      |
| Net position - beginning of the year           | 2,260,333           | 2,116,082           |
| <b>Net Position - End of Year</b>              | <b>\$ 2,420,194</b> | <b>\$ 2,260,333</b> |

See independent auditor's report and the accompanying notes to the financial statements.

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Statements of Cash Flows

| For the Years Ended December 31                                 | 2020         | 2019         |
|---|--------------|--------------|
| <b>Cash Flows from Operating Activities</b>                     |              |              |
| Cash received from customers                                    | \$ 1,302,540 | \$ 1,180,724 |
| Cash paid to suppliers and employees                            | (872,938)    | (823,849)    |
| Net increase in meter deposits                                  | 9,675        | 7,757        |
| Net cash provided by operating activities                       | 439,277      | 364,632      |
| <b>Cash Flows from Investing Activities</b>                     |              |              |
| Interest received on certificates of deposit                    | 8,806        | 6,608        |
| Net cash provided by investing activities                       | 8,806        | 6,608        |
| <b>Cash Flows from Capital and Related Financing Activities</b> |              |              |
| Additions to capital assets                                     | (232,443)    | (1,090,525)  |
| Repayment of accounts payable                                   | 0            | (101,425)    |
| Loan proceeds   | 32,856       | 1,059,399    |
| Payments of long-term debt                                      | (159,906)    | (29,936)     |
| Debt issuance costs   | 0            | (6,000)      |
| Interest paid on debt   | (93,203)     | (80,655)     |
| Net cash used in capital and related financing activities       | (452,696)    | (249,142)    |
| <b>Net increase (decrease) in cash and cash equivalents</b>     | (4,613)      | 122,098      |
| Cash and cash equivalents - beginning of year                   | 961,377      | 839,279      |
| <b>Cash and Cash Equivalents - End of Year</b>                  | \$ 956,764   | \$ 961,377   |
| <b>Cash and Cash Equivalents Reconciliation</b>                 |              |              |
| Cash and cash equivalents                                       | \$ 774,809   | \$ 825,275   |
| Restricted cash and cash equivalents                            | 181,955      | 136,102      |
| <b>Total Cash and Cash Equivalents - End of Year</b>            | \$ 956,764   | \$ 961,377   |

See independent auditor's report and the accompanying notes to the financial statements.



For the Years Ended December 31

2020

2019

**Reconciliation of net operating revenue  
to net cash provided by operating activities**

|   |           |                |           |                |
|---|-----------|----------------|-----------|----------------|
| Operating income  | \$        | 244,521        | \$        | 250,681        |
| Adjustments to reconcile increase in operating revenue<br>to net cash provided by operating activities: |           |                |           |                |
| Depreciation  |           | 183,502        |           | 156,375        |
| Decrease (increase) in assets   |           |                |           |                |
| Accounts receivable   |           | (3,483)        |           | (4,553)        |
| Unbilled revenue  |           | 535            |           | (32,687)       |
| Prepaid expenses and construction costs   |           | 13,773         |           | (516)          |
| Inventory   |           | 6,122          |           | (12,730)       |
| Increase (decrease) in liabilities  |           |                |           |                |
| Accounts payable  |           | (7,027)        |           | (2,892)        |
| Payroll taxes and withholdings payable  |           | (6,019)        |           | 1,393          |
| Sales tax payable   |           | 494            |           | 151            |
| Wages payable   |           | (2,816)        |           | 1,653          |
| Customer meter deposits   |           | 9,675          |           | 7,757          |
| Total adjustments   |           | 194,756        |           | 113,951        |
| <b>Net Cash Provided by Operating Activities</b>  | <b>\$</b> | <b>439,277</b> | <b>\$</b> | <b>364,632</b> |
| Supplemental Disclosures of Cash Flow Information:  |           |                |           |                |
| Non-Cash Activities   |           |                |           |                |
| Assets acquired by accounts payable   | \$        | 0              | \$        | (64,428)       |
| Accounts payable assumed to acquire assets  |           | 0              |           | 64,428         |
|   | \$        | 0              | \$        | 0              |
| Interest capitalized  | \$        | 3,316          | \$        | 13,102         |

See independent auditor's report and the accompanying notes to the financial statements.

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Notes to the Financial Statements

**Note 1 – Nature of Operations**

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*Organization.* City of Wooster Water Service Department (WWSD) is a component unit of the City of Wooster, Arkansas. A component unit is a legally separate organization for which the City's Mayor and City Council are financially accountable. The Mayor of the City is the principal officer of WWSD.

*Nature of Operations.* The principal functions of WWSD include operating and maintaining the water system.

**Note 2 – Summary of Significant Accounting Policies**

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*Basis of Presentation and Accounting.* WWSD's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. WWSD has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities that use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any accounting research bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

*Cash and Cash Equivalents.* WWSD's cash and cash equivalents are considered to be all cash on hand, demand deposit accounts, certificates of deposit, and all short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents consisted of certificates of deposits. Total cash and cash equivalents are as follows:

|  | December 31, 2020 | December 31, 2019 |
|--|-------------------|-------------------|
| Unrestricted - cash                    | \$ 590,191        | \$ 652,367        |
| Unrestricted - certificates of deposit | 184,618           | 172,908           |
| Total Unrestricted                     | 774,809           | 825,275           |
| Restricted - cash                      | \$ 26,077         | \$ 25,911         |
| Restricted - certificates of deposit   | 155,878           | 110,191           |
| Total Restricted                       | 181,955           | 136,102           |
| Total Cash and Cash Equivalents        | \$ 956,764        | \$ 961,377        |

State statutes authorize WWSD to maintain cash balances on deposit with financial institutions located within the State of Arkansas. Collateral is obtained for all cash and certificate of deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance. Collateral is held by WWSD's agent in WWSD's name. WWSD utilizes a financial institution to service bonded debt as principal and interest payments are due. The balance in this account is presented on the financial statements under "Restricted Assets: Cash - Debt Service Reserve Fund."

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Notes to the Financial Statements

**Note 2 – Summary of Significant Accounting Policies (continued)**

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*Accounts Receivable.* Uncollectible receivables are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by U.S. GAAP.

*Supplies.* Supplies are stated at the lower of cost or market determined by the specific identification method. Supplies consist of materials in stock.

*Capital Assets.* Capital assets are valued at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed. Capitalized interest costs were \$3,316 and \$13,102 for the years ended December 31, 2020 and 2019, respectively.

Depreciation is provided using the straight-line method over the following estimated useful lives:

|                        |            |
|------------------------|------------|
| Buildings              | 40 years   |
| Vehicles and Equipment | 4-10 years |
| Water Treatment Plant  | 10 years   |
| Water System Lines     | 40 years   |

As required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. If it is determined that a capital asset is impaired and that impairment is other than temporary, impairment losses are recorded in accordance with GASB No. 42. There were no impairment losses recorded for the years ended December 31, 2020 and 2019.

*Net Position Classification Policies and Procedures.* Net position comprises the net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following components:

*Net Investment in Capital Assets* – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted* - consists of net assets that have constraints placed on them either externally by creditors, grantors, contributors, laws, regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Notes to the Financial Statements

**Note 2 – Summary of Significant Accounting Policies (continued)**

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*Operating Revenues and Expenses.* Operating revenues and expenses consist of those revenues that result from the principal operations of WWSD. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net positions available, it is WWSD's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

*Use of Estimates.* The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates

*Restricted Assets.* Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted cash for debt service includes amounts required by debt covenant to be segregated for final year debt payment and accrued interest on the bonds.

*Income Taxes.* As a special purpose governmental entity, WWSD is exempt from federal and state income tax.

*Reclassifications.* Certain 2019 amounts have been reclassified to conform to the 2020 presentation.

**Note 3 – Restricted Assets**

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Under the terms of certain ordinances, certain restricted funds must be maintained as follows:

|                              | December 31, 2020 | December 31, 2019 |
|------------------------------|-------------------|-------------------|
| Bond and note reserve funds: |                   |                   |
| Debt service reserve funds   | \$ 81,358         | \$ 71,690         |
| Other restricted assets:     |                   |                   |
| Depreciation reserves        | 100,597           | 64,218            |
| Construction fund            | 0                 | 194               |
| Total restricted assets      | <u>\$ 181,955</u> | <u>\$ 136,102</u> |

WWSD is required under note payable agreements with the United States Department of Agriculture (USDA) Rural Development and the Arkansas Natural Resources Commission (ANRC) to maintain debt service reserves for the purpose of paying principal and interest on the notes to the extent monies in the revenue fund on any payment date are insufficient for such purposes. At December 31, 2020 and 2019, WWSD had over funded its required reserves by approximately \$14,194 and \$13,441, respectively.

The depreciation funds were established under note payable agreements with the USDA Rural Development and the ANRC for the purpose of funding major repairs, damages caused by unforeseen catastrophes, and necessary replacements to the systems. At December 31, 2020 and 2019, WWSD had over funded its required reserves by \$2,128 and \$805, respectively.

City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Notes to the Financial Statements

**Note 3 – Restricted Assets (continued)**

At December 31, 2020 and 2019, restricted assets consisted of checking accounts and certificates of deposits, some of which were underinsured or uncollateralized. See Note 11.

**Note 4 – Related Parties**

Certain activities occur regularly between WWSD and other units of the City of Wooster requiring transfer of funds between the units and reimbursement of expenses. During the years ended December 31, 2020 and 2019, there were no transfers of funds between entities.

**Note 5 – Retirement Plan**

In July 2006, WWSD adopted a savings incentive match plan (SIMPLE) in which employee and employer contributions are contributed to the employees' individual retirement accounts. Any employee who is expected to receive at least \$5,000 in compensation in at least one preceding calendar year is eligible to participate in the plan. WWSD will match employees' contributions up to 3% of their compensation for the calendar year. All contributions made under the SIMPLE IRA plan are fully vested. Total employer contributions for the years ended December 31, 2020 and 2019, were \$4,887 and \$4,129, respectively.

**Note 6 – Water Revenue**

There were approximately 1,754 and 1,604 customers as of December 31, 2020 and 2019, respectively. The gross revenues received from water service, connection and reconnection fees, plumbing inspections, service, and late fees were \$1,304,392 and \$1,219,307 for the years ended December 31, 2020 and 2019, respectively.

The following water rates were in effect for 2020 and 2019:

| September 1, 2019 to December 31, 2020 |                  | January 1, 2018 to August 31, 2019 |                  |
|--|------------------|------------------------------------|------------------|
| Inside City Limits:                    |                  | Inside City Limits:                |                  |
| Gallons per Month                      | Rates            | Gallons per Month                  | Rates            |
| First 1,000 gallons                    | \$28.00 minimum  | First 1,000 gallons                | \$28.00 minimum  |
| Over 1,000 gallons                     | \$6.88 per 1,000 | Over 1,000 gallons                 | \$6.78 per 1,000 |
| Outside City Limits:                   |                  | Outside City Limits:               |                  |
| Gallons per Month                      | Rates            | Gallons per Month                  | Rates            |
| First 1,000 gallons                    | \$30.00 minimum  | First 1,000 gallons                | \$30.00 minimum  |
| Over 1,000 gallons                     | \$7.40 per 1,000 | Over 1,000 gallons                 | \$7.30 per 1,000 |

**Note 7 – Leases**

WWSD leased equipment used in Phase 1 construction of the sewer system which consisted of installation of collector mains and construction of a pump station. The equipment was leased on a month-to-month basis with total cost incurred of \$43,219 and \$20,085 for the years ended December 31, 2020 and 2019, respectively. The lease payments were included in work in progress at December 31, 2020 and 2019.



City of Wooster Water Service Department  
(a component unit of the City of Wooster, Arkansas)

Notes to the Financial Statements

**Note 8 – Capital Assets**

Capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

|                                       | Balance<br>January 1, 2020 | Transfers In/<br>Additions | Transfers Out/<br>Disposals | Balance<br>December 31, 2020 |
|---------------------------------------|----------------------------|----------------------------|-----------------------------|------------------------------|
| <b>Capital Assets</b>                 |                            |                            |                             |                              |
| <i>Non-depreciable:</i>               |                            |                            |                             |                              |
| Land                                  | \$ 25,453                  | \$ 6,430                   | \$ 0                        | \$ 31,883                    |
| Work in progress                      | 450,214                    | 157,943                    | 0                           | 608,157                      |
| Total                                 | 475,667                    | 164,373                    | 0                           | 640,040                      |
| <i>Depreciable:</i>                   |                            |                            |                             |                              |
| Office building                       | 117,116                    | 0                          | 0                           | 117,116                      |
| Equipment and storage building        | 1,148,739                  | 32,856                     | 0                           | 1,181,595                    |
| Water system                          | 4,961,597                  | 35,214                     | 0                           | 4,996,811                    |
| Total                                 | 6,227,452                  | 68,070                     | 0                           | 6,295,522                    |
| <i>Less accumulated depreciation:</i> |                            |                            |                             |                              |
| Office building                       | (49,093)                   | (3,208)                    | 0                           | (52,301)                     |
| Equipment and storage building        | (461,738)                  | (84,096)                   | 0                           | (545,834)                    |
| Water system                          | (1,192,678)                | (96,198)                   | 0                           | (1,288,876)                  |
| Total                                 | (1,703,509)                | (183,502)                  | 0                           | (1,887,011)                  |
| Total Depreciable - Net               | 4,523,943                  | (115,432)                  | 0                           | 4,408,511                    |
| <b>Total Capital Assets - Net</b>     | <b>\$ 4,999,610</b>        | <b>\$ 48,941</b>           | <b>\$ 0</b>                 | <b>\$ 5,048,551</b>          |

  

|                                       | Balance<br>January 1, 2019 | Transfers In/<br>Additions | Transfers Out/<br>Disposals | Balance<br>December 31, 2019 |
|---------------------------------------|----------------------------|----------------------------|-----------------------------|------------------------------|
| <b>Capital Assets</b>                 |                            |                            |                             |                              |
| <i>Non-depreciable:</i>               |                            |                            |                             |                              |
| Land                                  | \$ 25,453                  | \$ 0                       | \$ 0                        | \$ 25,453                    |
| Work in progress                      | 2,442,298                  | 657,202                    | (2,649,286)                 | 450,214                      |
| Total                                 | 2,467,751                  | 657,202                    | (2,649,286)                 | 475,667                      |
| <i>Depreciable:</i>                   |                            |                            |                             |                              |
| Office building                       | 117,116                    | 0                          | 0                           | 117,116                      |
| Equipment and storage building        | 1,031,359                  | 536,314                    | (418,934)                   | 1,148,739                    |
| Water system                          | 2,312,311                  | 2,649,286                  | 0                           | 4,961,597                    |
| Total                                 | 3,460,786                  | 3,185,600                  | (418,934)                   | 6,227,452                    |
| <i>Less accumulated depreciation:</i> |                            |                            |                             |                              |
| Office building                       | (45,884)                   | (3,209)                    | 0                           | (49,093)                     |
| Equipment and storage building        | (790,632)                  | (54,288)                   | 383,182                     | (461,738)                    |
| Water system                          | (1,093,800)                | (98,878)                   | 0                           | (1,192,678)                  |
| Total                                 | (1,930,316)                | (156,375)                  | 383,182                     | (1,703,509)                  |
| Total Depreciable - Net               | 1,530,470                  | 3,029,225                  | (35,752)                    | 4,523,943                    |
| <b>Total Capital Assets - Net</b>     | <b>\$ 3,998,221</b>        | <b>\$ 3,686,427</b>        | <b>\$ (2,685,038)</b>       | <b>\$ 4,999,610</b>          |

*City of Wooster Water Service Department*  
*(a component unit of the City of Wooster, Arkansas)*

Notes to the Financial Statements

**Note 9 – Notes Payable**

Notes payable consisted of the following:

|  | December 31, 2020   | December 31, 2019   |
|--|---------------------|---------------------|
| <b>Long-Term Notes Payable</b>   |                     |                     |
| 3.85% note payable to a finance company, due in monthly installments of \$1,206 including interest, secured by equipment, due in February 2025.  | \$ 28,796           | \$ 0                |
| 7.80% note payable to a finance company, due in monthly installments of \$558 including interest, secured by equipment, due in April 2023.   | 13,759              | 20,012              |
| 7.50% note payable to USDA Rural Development, due in monthly installments of \$363 including interest, secured by issuance of water revenue bonds which are secured by statutory mortgage lien upon the water system land, plant, and equipment, due in February 2026.   | 18,593              | 21,438              |
| 5.00% note payable to Arkansas Natural Resources Commission, due in annual installments of \$2,914 including interest, secured by the assets and revenue generated from the operation of the project, due in November 2028.  | 18,838              | 20,712              |
| 5.00% note payable to Arkansas Natural Resources Commission, due in annual installments of \$2,914 including interest, secured by the assets and revenue generated from the operation of the project, due in November 2028.  | 18,833              | 20,712              |
| 4.50% note payable to USDA Rural Development, interest only payable for the first two years, then due in monthly installments of \$2,348 including interest, secured by the assets and revenue generated from the operation of the project, due in June 2042.  | 387,222             | 397,715             |
| 5.00% note payable to Arkansas Natural Resources Commission, interest is waived for ten years and payment is deferred for ten years, then due in annual installments of \$16,530 including interest, secured by the assets and revenue generated by the operation of the project, due in December 2031.  | 137,305             | 146,510             |
| 2.50% bond payable to Arkansas Natural Resources Commission and Arkansas Development Finance Authority, interest and servicing fee due semiannually until October 2019, then due in semiannual installments of \$78,207 consisting of principal, interest (1.5%) and servicing fee (1%) beginning in April 2020. Secured by gross revenues of the department, due in October 2039. | 2,354,236           | 2,453,122           |
| <b>Subtotal</b>  | <b>\$ 2,977,582</b> | <b>\$ 3,080,221</b> |

*City of Wooster Water Service Department*  
*(a component unit of the City of Wooster, Arkansas)*

Notes to the Financial Statements

**Note 9 – Notes Payable (continued)**

|  |           |                  |           |                  |
|--|-----------|------------------|-----------|------------------|
| <b>Subtotal from previous page</b>   | \$        | 2,977,582        | \$        | 3,080,221        |
| 0.50% bond payable to Arkansas Natural Resources Commission and Arkansas Development Finance Authority, servicing fee due semiannually until October 2019, then due in semiannual installments of \$25,651 consisting of principal, and a servicing fee (0.5%) beginning October 2020. Secured by gross revenues of the department, due in April 2030. |           |                  |           |                  |
|  |           | 475,394          |           | 499,805          |
| Total Notes Payable  |           | 3,452,976        |           | 3,580,026        |
| Less: current maturities   |           | 182,982          |           | 154,871          |
| <b>Net Long-Term Notes Payable</b>   | <b>\$</b> | <b>3,269,994</b> | <b>\$</b> | <b>3,425,155</b> |

The aggregate maturities of notes payable are as follows:

| <u>December 31</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------|---------------------|-------------------|---------------------|
| 2021               | \$ 182,982          | \$ 89,719         | \$ 272,701          |
| 2022               | 187,715             | 84,987            | 272,702             |
| 2023               | 187,585             | 80,179            | 267,764             |
| 2024               | 190,416             | 75,593            | 266,009             |
| 2025               | 189,989             | 70,979            | 260,968             |
| 2026-2030          | 993,156             | 283,766           | 1,276,922           |
| 2031-2035          | 771,753             | 167,730           | 939,483             |
| 2036-2040          | 709,884             | 56,655            | 766,539             |
| 2041-2045          | 39,496              | 1,378             | 40,874              |
|                    | <u>\$ 3,452,976</u> | <u>\$ 910,986</u> | <u>\$ 4,363,962</u> |

**Note 10 – Insurance**

The insurance policies in force at December 31, 2020, are as follows:

| <u>Company</u>                    | <u>Policy</u>       | <u>Expiration</u> | <u>Amount of Coverage</u>   |
|-----------------------------------|---------------------|-------------------|-----------------------------|
| Owners Insurance Co.              | General Liability   | 1/17/2021         | \$ 300,000                  |
| Owners Insurance Co.              | Commercial Property | 5/3/2021          | \$ 1,547,071                |
| Arkansas Municipal League         | Auto                | 5/12/2021         | \$ 263,521                  |
| Arkansas Government Bonding Board | Employee Dishonesty | 12/31/2020        | \$ 250,000 (per occurrence) |



*City of Wooster Water Service Department*  
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Notes to the Financial Statements

**Note 11 – Concentrations of Credit Risk**

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Financial instruments that potentially subject WWSD to concentration of credit risk consist primarily of cash equivalents and trade accounts receivable. WWSD performs ongoing credit reviews of its customers and generally does not require collateral. WWSD maintains reserves for potential credit losses and such losses have been within management's expectations.

The carrying amounts of WWSD's cash and cash equivalents were \$956,764 and \$961,377 at December 31, 2020 and 2019, respectively; and the bank balances were \$963,424 and \$1,036,309 at December 31, 2020 and 2019, respectively. The differences between the bank balances and the carrying amounts represent outstanding checks and deposits in transit. WWSD held its cash and cash equivalents in financial institutions where balances are insured by the FDIC up to \$250,000. WWSD held uninsured cash balances of \$428,792 and \$76,509 at December 31, 2020 and 2019, respectively. The remaining bank balances were collateralized by pledged securities and letters of credit of the financial institutions in the amount of \$653,270 and \$750,000 in 2020 and 2019, respectively.

Arkansas state law provides public funds be deposited in banks located in the State of Arkansas and permits the investment of funds in U.S. Government obligations, state and local bonds, and time deposits.

Other financial instruments that potentially subject the organization to concentrations of credit risk consist principally of accounts receivable and are limited due to the large number of customers with small account balances and required customer meter deposits.

**Note 12 – Contingencies**

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WWSD has opted to be a reimbursable employer for state unemployment tax purposes. Under this option, WWSD pays a pro rata share of the actual costs of unemployment benefits to its former employees. There were no benefits paid for the years ended December 31, 2020 and 2019.

**Note 13 – Subsequent Events**

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WWSD evaluated the events and transactions subsequent to its December 31, 2020, balance sheet date and in accordance with FASB ASC 855-10-50, determined there were no events to report through February 18, 2022, which is the date WWSD's financial statements were available for issue.

**Other  
Required  
Reports**



John S. Brock | Jake Froemsdorf | Jaye Gasaway | Rocky Goodman | Greg Schichtl | J. Michael Tuohey

City Council  
City of Wooster Water Service Department  
Wooster, Arkansas

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

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 Wooster Water Service Department as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered City of Wooster Water Service 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 City of Wooster Water Service Department's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Wooster Water Service 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered 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 City of Wooster Water Service Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

*Garland & Greenwood CPAs and Advisors*

Conway, Arkansas

February 18, 2022

*City of Wooster Water Service Department*  
*(a component unit of the City of Wooster, Arkansas)*

*Summary of Audit Results and Schedule of Findings and Responses*

**Summary of Audit Results**

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|   |     |    |
|---|-----|----|
| 1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Wooster Water Service Department (WWSD) |     |    |
|   | Yes | No |
| 2. Material weakness(es) Identified?  |     | X  |
| 3. Significant deficiency(ies) identified?  |     | X  |
| 4. Noncompliance material to financial statements noted?  |     | X  |
| 5. No instances of noncompliance material to the financial statements of WWSD were disclosed during the audit.                                |     |    |

**Schedule of Findings and Responses**

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There were no reportable findings for the year ended December 31, 2020.