

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
Assets		
<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
Total Current Assets	924,335	991,750
<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
Total Restricted Assets	181,955	136,102
<i>Capital Assets</i>		
<i>Non-depreciable Capital Assets</i>		
Land	31,883	25,453
Work in progress	608,157	450,214
Total Non-depreciable Capital Assets	640,040	475,667
<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
Total Depreciable Capital Assets	6,295,522	6,227,452
Less: accumulated depreciation	1,887,011	1,703,509
Total Depreciable Capital Assets - Net	4,408,511	4,523,943
Total Capital Assets	5,048,551	4,999,610
Total Assets	\$ 6,154,841	\$ 6,127,462

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

December 31	2020	2019
Liabilities		
<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
Total Current Liabilities	300,215	287,211
<i>Long-Term Liabilities</i>		
Customer meter deposits	164,438	154,763
Long-term debt - less current maturities	3,269,994	3,425,155
Total Long-Term Liabilities	3,434,432	3,579,918
Net Position		
Invested in capital assets, net of related debt	1,595,575	1,419,584
Restricted	181,955	136,102
Unrestricted	642,664	704,647
Total Net Position	2,420,194	2,260,333
Total Liabilities and Net Position	\$ 6,154,841	\$ 6,127,462

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
Operating Revenues		
Water revenues	\$ 1,183,911	\$ 1,124,543
Late fees	16,821	17,864
Fee and permit revenue	103,660	76,900
Total Operating Revenues	1,304,392	1,219,307
Operating Expenses		
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
Total Operating Expenses	1,059,871	968,626
Operating Income	244,521	250,681
Non-Operating Revenues (Expenses)		
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)
Total Non-Operating Revenues (Expenses)	(84,660)	(106,430)
Change in Net Position	159,861	144,251
Net position - beginning of the year	2,260,333	2,116,082
Net Position - End of Year	\$ 2,420,194	\$ 2,260,333

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
Cash Flows from Operating Activities		
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
Cash Flows from Investing Activities		
Interest received on certificates of deposit	8,806	6,608
Net cash provided by investing activities	8,806	6,608
Cash Flows from Capital and Related Financing Activities		
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)
Net increase (decrease) in cash and cash equivalents	(4,613)	122,098
Cash and cash equivalents - beginning of year	961,377	839,279
Cash and Cash Equivalents - End of Year	\$ 956,764	\$ 961,377
Cash and Cash Equivalents Reconciliation		
Cash and cash equivalents	\$ 774,809	\$ 825,275
Restricted cash and cash equivalents	181,955	136,102
Total Cash and Cash Equivalents - End of Year	\$ 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 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
Net Cash Provided by Operating Activities	\$	439,277	\$	364,632
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

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

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	<u>774,809</u>	<u>825,275</u>
Restricted - cash	\$ 26,077	\$ 25,911
Restricted - certificates of deposit	155,878	110,191
Total Restricted	<u>181,955</u>	<u>136,102</u>
Total Cash and Cash Equivalents	<u>\$ 956,764</u>	<u>\$ 961,377</u>

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)

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)

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

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	
<u>Inside City Limits:</u>		<u>Inside City Limits:</u>	
<u>Gallons per Month</u>	<u>Rates</u>	<u>Gallons per Month</u>	<u>Rates</u>
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
<u>Outside City Limits:</u>		<u>Outside City Limits:</u>	
<u>Gallons per Month</u>	<u>Rates</u>	<u>Gallons per Month</u>	<u>Rates</u>
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 January 1, 2020	Transfers In/ Additions	Transfers Out/ Disposals	Balance December 31, 2020
Capital Assets				
<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
Total Capital Assets - Net	\$ 4,999,610	\$ 48,941	\$ 0	\$ 5,048,551

	Balance January 1, 2019	Transfers In/ Additions	Transfers Out/ Disposals	Balance December 31, 2019
Capital Assets				
<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
Total Capital Assets - Net	\$ 3,998,221	\$ 3,686,427	\$ (2,685,038)	\$ 4,999,610

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
Long-Term Notes Payable		
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
Subtotal	\$ 2,977,582	\$ 3,080,221

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)

Subtotal from previous page	\$ 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
Net Long-Term Notes Payable	\$ 3,269,994	\$ 3,425,155

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

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

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

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 Tuohy

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

1. The auditor's report expresses an unqualified opinion on the basic financial statements of City of Wooster Water Service Department (WWSD)		
	<u>Yes</u>	<u>No</u>
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

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