

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

Financial Report
with Independent Auditor's Report

December 31, 2022 and 2021

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

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John S. Brock | Jake Froemsdorf | 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

Opinion

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 years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

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, 2022 and 2021, and the results of changes in financial position, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Wooster Water Service Department to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Wooster Water Service Department'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 Responsibility 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:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. 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.
3. 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 Wooster Water Service Department's internal control. Accordingly, no such opinion is expressed.
4. 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.
5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Wooster Water Service Department'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 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.

City of Wooster Water Service Department
Wooster, Arkansas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2023, 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

December 11, 2023

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 605,151	\$ 758,203
Accounts receivable - net	116,435	108,346
Accrued water revenue	49,343	38,431
Prepaid expenses and construction costs	1,328	965
Supplies	26,623	28,474
Total Current Assets	798,880	934,419
<i>Restricted Assets</i>		
Cash - depreciation reserve fund	179,173	139,060
Cash - debt service reserve fund	117,408	83,545
Total Restricted Assets	296,581	222,605
<i>Capital Assets</i>		
<i>Non-depreciable Capital Assets</i>		
Land	33,319	33,319
Work in progress	1,279,103	1,017,883
Total Non-depreciable Capital Assets	1,312,422	1,051,202
<i>Depreciable Capital Assets</i>		
Office building	117,116	117,116
Sewer equipment	40,373	40,373
Water equipment	1,332,521	1,164,671
Water system	5,023,755	4,996,811
Total Depreciable Capital Assets	6,513,765	6,318,971
Less: accumulated depreciation	2,262,799	2,068,168
Total Depreciable Capital Assets - Net	4,250,966	4,250,803
Total Capital Assets	5,563,388	5,302,005
Total Assets	\$ 6,658,849	\$ 6,459,029

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 Net Position
December 31, 2022 and 2021

	2022	2021
Liabilities		
<i>Current Liabilities</i>		
Accounts payable	\$ 73,764	\$ 70,800
Interest payable	14,210	14,210
Payroll taxes and withholdings payable	0	291
Sales tax payable	6,243	6,628
Wages payable	2,132	3,824
Vacation payable	7,054	7,054
Line of credit	0	219,000
Long-term debt - current portion	235,229	182,280
Total Current Liabilities	338,632	504,087
<i>Long-Term Liabilities</i>		
Customer meter deposits	174,977	168,578
Long-term debt - less current maturities	3,113,581	3,083,300
Total Long-Term Liabilities	3,288,558	3,251,878
Net Position		
Invested in capital assets - net of related debt	2,214,578	2,036,425
Restricted	296,581	222,605
Unrestricted	520,500	444,034
Total Net Position	3,031,659	2,703,064
Total Liabilities and Net Position	\$ 6,658,849	\$ 6,459,029

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, 2022 and 2021

	2022	2021
Operating Revenues		
Water revenues	\$ 1,324,436	\$ 1,251,111
Late fees	15,109	16,339
Fee and permit revenue	109,116	96,814
Total Operating Revenues	1,448,661	1,364,264
Operating Expenses		
Bad debts	1,930	425
Cell phone badger meters	20,339	19,549
Debit and credit card fees	0	3,986
Depreciation	194,631	181,156
Fuel and oil	24,568	21,312
Insurance	38,781	41,864
Miscellaneous	1,079	72
Office supplies	816	783
Payroll taxes	24,018	18,435
Postage	6,521	7,105
Professional fees and dues	34,204	14,702
Repairs and maintenance	118,923	107,414
Retirement	4,747	5,605
Salaries and wages	314,043	304,250
Uniforms	2,179	618
Utilities and telephone	15,897	16,036
Water purchases	413,573	366,040
Total Operating Expenses	1,216,249	1,109,352
Operating Income	232,412	254,912
Non-Operating Revenues (Expenses)		
Interest income	3,731	4,037
Interest expense	(97,443)	(91,376)
Total Non-Operating Revenues (Expenses)	(93,712)	(87,339)
Income (loss) before capital contributions	138,700	167,573
Capital contributions	189,895	115,297
Change in Net Position	328,595	282,870
Net position - beginning of the year	2,703,064	2,420,194
Net Position - End of Year	\$ 3,031,659	\$ 2,703,064

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, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,442,145	\$ 1,361,522
Cash paid to suppliers and employees	(1,032,020)	(965,846)
Net increase in meter deposits	6,399	4,140
Net cash provided by (used in) operating activities	416,524	399,816
Cash Flows from Investing Activities		
Interest received on certificates of deposit	3,731	4,037
Net cash provided by (used in) investing activities	3,731	4,037
Cash Flows from Capital and Related Financing Activities		
Payments for the purchase of capital assets	(456,014)	(434,610)
Proceeds from capital contributions	189,895	115,297
Loan proceeds	302,541	219,000
Payments of long-term debt	(438,311)	(187,396)
Interest paid on debt	(97,442)	(92,100)
Net cash provided by (used in) capital and related financing activities	(499,331)	(379,809)
Net increase (decrease) in cash and cash equivalents	(79,076)	24,044
Cash and cash equivalents - beginning of year	980,808	956,764
Cash and Cash Equivalents - End of Year	\$ 901,732	\$ 980,808
Cash and Cash Equivalents Reconciliation		
Cash and cash equivalents	\$ 605,151	\$ 758,203
Restricted cash and cash equivalents	296,581	222,605
Total Cash and Cash Equivalents - End of Year	\$ 901,732	\$ 980,808

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, 2022 and 2021

	2022	2021
Reconciliation of change in net position to net cash provided by (used in) operating activities		
Operating income	\$ 232,412	\$ 254,912
Adjustments to reconcile increase in operating revenue to net cash provided by (used in) operating activities:		
Depreciation	194,631	181,156
Decrease (increase) in assets		
Accounts receivable	(8,089)	(4,332)
Unbilled revenue	(10,912)	(6,279)
Prepaid expenses	(363)	0
Inventory	1,851	(16,078)
Increase (decrease) in liabilities		
Accounts payable	2,963	(12,604)
Payroll taxes and withholdings payable	(291)	(2,781)
Sales tax payable	(385)	(138)
Wages payable	(1,692)	1,820
Customer meter deposits	6,399	4,140
Total adjustments	184,112	144,904
Net Cash Provided by (Used in) Operating Activities	\$ 416,524	\$ 399,816
Supplemental Disclosures of Cash Flow Information:		
Interest capitalized	\$ 0	\$ 0

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
For the Years Ended December 31, 2022 and 2021

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. Total cash and cash equivalents are as follows:

	2022	2021
Unrestricted - cash	\$ 420,118	\$ 573,585
Unrestricted - certificates of deposit	185,033	184,618
Total Unrestricted	605,151	758,203
Restricted - cash	66,237	28,266
Restricted - certificates of deposit	230,344	194,339
Total Restricted	296,581	222,605
Total Cash and Cash Equivalents	\$ 901,732	\$ 980,808

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."

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.

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2 – Summary of Significant Accounting Policies (continued)

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 \$0 for the years ended December 31, 2022 and 2021.

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, 2022 and 2021.

New Accounting Pronouncements. In June 2017, GASB issued Statement No. 87 which enhances the relevance and consistency of information of a government's leasing activity. It establishes requirements or lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Leases with a term of 12 months or less will be expensed as incurred. The GASB was effective for the year ended December 31, 2022, and had no impact on the financial statements.

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
For the Years Ended December 31, 2022 and 2021

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.

Date of Management's Review. Management has evaluated subsequent events through December 11, 2023, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements as of December 31, 2022 and 2021.

Reclassifications. Certain 2021 amounts have been reclassified to conform to the 2022 presentation.

Note 3 – Restricted Assets

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

	2022	2021
Bond and note reserve funds:		
Debt service reserve funds	\$ 117,408	\$ 83,545
Other restricted assets:		
Depreciation reserves	179,173	139,060
Total restricted assets	<u>\$ 296,581</u>	<u>\$ 222,605</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, 2022 and 2021, WWSD had overfunded its required reserves by approximately \$14,283 and \$14,195, 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, damage caused by unforeseen catastrophes, and necessary replacements to the systems. At December 31, 2022 and 2021, WWSD had overfunded its required reserves by \$660 and \$3, respectively.

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
 Notes to the Financial Statements
 For the Years Ended December 31, 2022 and 2021

Note 3 – Restricted Assets (continued)

At December 31, 2022 and 2021, restricted assets consisted of checking accounts and certificates of deposits, some of which were underinsured or uncollateralized. See Note 12.

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, 2022 and 2021, 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, 2022 and 2021, were \$4,747 and \$5,605, respectively.

Note 6 – Water Revenue

There were approximately 1,852 and 1,796 customers as of December 31, 2022 and 2021, respectively. The gross revenues received from water service, connection and reconnection fees, plumbing inspections, service, and late fees were \$1,448,661 and \$1,364,264 for the years ended December 31, 2022 and 2021, respectively.

The following water rates were in effect for 2022 and 2021:

January 1, 2022 to December 31, 2022		January 1, 2021 to December 31, 2021	
Inside City Limits:		Inside City Limits:	
Gallons per Month	Rates	Gallons per Month	Rates
First 1,000 gallons	\$31.25 minimum	First 1,000 gallons	\$28.00 minimum
Over 1,000 gallons	\$6.90 per 1,000	Over 1,000 gallons	\$6.90 per 1,000
Outside City Limits:		Outside City Limits:	
Gallons per Month	Rates	Gallons per Month	Rates
First 1,000 gallons	\$33.39 minimum	First 1,000 gallons	\$30.00 minimum
Over 1,000 gallons	\$7.42 per 1,000	Over 1,000 gallons	\$7.42 per 1,000

Note 7 – Capital Contributions

Capital contributions consist of funds received for the purpose of bettering and improving the water and sewer systems. WWSD received capital contributions of \$189,895 and \$115,297 during the years ended December 31, 2022 and 2021, respectively.

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 8 – Capital Assets

Capital asset activity was as follows:

	Balance 12/31/2021	Transfers In/ Additions	Transfers Out/ Disposals	Balance 12/31/2022
Capital Assets				
<i>Non-depreciable:</i>				
Land	\$ 33,319	\$ 0	\$ 0	\$ 33,319
Work in progress	1,017,883	261,220	0	1,279,103
Total Non-Depreciable	1,051,202	261,220	0	1,312,422
<i>Depreciable:</i>				
Office building	117,116	0	0	117,116
Equipment and storage building	1,205,044	167,850	0	1,372,894
Water system	4,996,811	26,944	0	5,023,755
Total	6,318,971	194,794	0	6,513,765
<i>Less accumulated depreciation:</i>				
Office building	(55,510)	(3,209)	0	(58,719)
Equipment and storage building	(610,442)	(77,898)	0	(688,340)
Water system	(1,402,216)	(113,524)	0	(1,515,740)
Total	(2,068,168)	(194,631)	0	(2,262,799)
Total Depreciable - Net	4,250,803	163	0	4,250,966
Total Capital Assets - Net	\$ 5,302,005	\$ 261,383	\$ 0	\$ 5,563,388
	Balance 12/31/2020	Transfers In/ Additions	Transfers Out/ Disposals	Balance 12/31/2021
Capital Assets				
<i>Non-depreciable:</i>				
Land	\$ 31,883	\$ 1,436	\$ 0	\$ 33,319
Work in progress	608,157	409,726	0	1,017,883
Total Non-Depreciable	640,040	411,162	0	1,051,202
<i>Depreciable:</i>				
Office building	117,116	0	0	117,116
Equipment and storage building	1,181,595	23,449	0	1,205,044
Water system	4,996,811	0	0	4,996,811
Total	6,295,522	23,449	0	6,318,971
<i>Less accumulated depreciation:</i>				
Office building	(52,301)	(3,209)	0	(55,510)
Equipment and storage building	(545,834)	(64,608)	0	(610,442)
Water system	(1,288,876)	(113,340)	0	(1,402,216)
Total	(1,887,011)	(181,157)	0	(2,068,168)
Total Depreciable - Net	4,408,511	(157,708)	0	4,250,803
Total Capital Assets - Net	\$ 5,048,551	\$ 253,454	\$ 0	\$ 5,302,005

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 9 – Notes Payable

Notes payable consisted of the following:

	2022	2021
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.	\$ 15,015	\$ 21,535
7.80% note payable to a finance company, due in monthly installments of \$558 including interest, secured by equipment, due in April 2023.	1,969	8,448
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.	12,224	15,527
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.	14,795	16,866
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.	14,790	16,861
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.	364,765	376,246
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.	117,493	127,641
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.	2,155,429	2,256,067
Subtotal	\$ 2,696,480	\$ 2,839,191

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 9 – Notes Payable (continued)

	2022	2021
Subtotal from previous page	\$ 2,696,480	\$ 2,839,191
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.	377,138	426,389
3.80% note payable to First Service Bank, due in monthly installments of \$3,233, including interest, secured by equipment, due in December 2027.	176,191	0
4.14% note payable to a finance company, due in variable monthly installments including interest, secured by equipment, due in April 2027.	99,001	0
Total Notes Payable	3,348,810	3,265,580
Less: current maturities	235,229	182,280
Net Long-Term Notes Payable	\$ 3,113,581	\$ 3,083,300
 Total long-term debt - beginning of year	 \$ 3,265,580	 \$ 3,452,976
Long-term debt issued	302,541	0
Repayments of long-term debt	(219,311)	(187,396)
Total long-term debt - end of year	\$ 3,348,810	\$ 3,265,580

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 235,229	\$ 86,388	\$ 321,617
2024	239,893	83,913	323,806
2025	240,642	77,172	317,814
2026	246,261	70,383	316,644
2027	236,457	63,547	300,004
2028-2032	935,003	240,579	1,175,582
2033-2037	798,583	124,370	922,953
2038-2042	416,742	21,489	438,231
	\$ 3,348,810	\$ 767,841	\$ 4,116,651

Note 10 – Line of Credit

On September 24, 2021, WWSD obtained a line of credit from First Service Bank with a limit of \$250,000, bearing interest at 3.80%. During the year ended December 31, 2022, WWSD drew \$113,500 on the line of credit and made \$97,500 in payments. On December 24, 2022, the line of credit matured and converted to a promissory note maturing December 24, 2027. See Note 9.

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 11 – Insurance

The insurance policies in force at December 31, 2022, are as follows:

Company	Policy	Expiration	Amount of Coverage
Owners Insurance Co.	General Liability	1/17/2023	\$ 300,000
Owners Insurance Co.	Commercial Property	5/3/2023	\$ 1,547,071
Arkansas Municipal League	Auto	5/12/2023	\$ 292,021
Arkansas Government Bonding Board	Employee Dishonesty	12/31/2022	\$ 250,000 (per occurrence)

Note 12 – 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 \$901,732 and \$980,808 at December 31, 2022 and 2021, respectively; and the bank balances were \$964,352 and \$1,097,954 at December 31, 2022 and 2021, 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 \$431,820 and \$563,336 at December 31, 2022 and 2021, respectively. The remaining bank balances were collateralized by pledged securities and letters of credit of the financial institutions in the amount of \$650,000 and \$534,618 in 2022 and 2021, 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.

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 13 – 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 \$18,008 and \$43,431 for the years ended December 31, 2022 and 2021, respectively. The lease payments were included in work in progress at December 31, 2022 and 2021.

Note 14 – 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, 2022 and 2021.

**Other
Required
Reports**



John S. Brock | Jake Froemsdorf | 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, 2022, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2023.

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 City of Wooster Water Service Department'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 City of Wooster Water Service Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Garland & Greenwood CPAs and Advisors, PLLC

Conway, Arkansas

December 11, 2023

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
For the Years Ended December 31, 2022 and 2021

Section I - Summary of Auditor's Results

Type of Auditor's Report Issued on Financial Statements:

Unmodified

Internal Control over Financial Reporting

Material Weakness(es) Identified?

_____ Yes X No

Significant Deficiency(ies) Identified?

_____ Yes X No

Noncompliance Material to Financial Statements Noted?

_____ Yes X No

Section II - Government Auditing Standards Findings

There are no reportable findings for the year ended December 31, 2022.