

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

Financial Report
with Independent Auditor's Report

December 31, 2023 and 2022

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

Independent Auditor's Report

To the City Council
City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
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, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the City of Wooster Water Service Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the City of Wooster Water Service Department as of December 31, 2023 and 2022, and the 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 and 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.

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

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
(a component unit of the City of Wooster, Arkansas)
Wooster, Arkansas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2024, on our consideration of the 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 31, 2024

City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
Statements of Net Position
December 31, 2023 and 2022

	2023	2022
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 748,212	\$ 605,151
Accounts receivable - net	127,222	116,435
Accrued water revenue	45,021	49,343
Prepaid expenses and construction costs	2,946	1,328
Supplies	9,344	26,623
Total Current Assets	932,745	798,880
<i>Restricted Assets</i>		
Cash - depreciation reserve fund	170,093	179,173
Cash - debt service reserve fund	143,505	117,408
Total Restricted Assets	313,598	296,581
<i>Capital Assets</i>		
<i>Non-depreciable Capital Assets</i>		
Land	33,319	33,319
Work in progress	0	1,279,103
Total Non-depreciable Capital Assets	33,319	1,312,422
<i>Depreciable Capital Assets</i>		
Office building	117,116	117,116
Sewer equipment	38,873	40,373
Sewer system	1,889,064	0
Water equipment	1,362,071	1,332,521
Water system	5,034,300	5,023,755
Total Depreciable Capital Assets	8,441,424	6,513,765
Less: accumulated depreciation	2,467,252	2,262,799
Total Depreciable Capital Assets - Net	5,974,172	4,250,966
Total Capital Assets	6,007,491	5,563,388
Total Assets	\$ 7,253,834	\$ 6,658,849

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, 2023 and 2022

	2023	2022
Liabilities		
<i>Current Liabilities</i>		
Accounts payable	\$ 37,773	\$ 73,764
Interest payable	12,201	14,210
Sales tax payable	7,173	6,243
Wages payable	4,658	2,132
Vacation payable	7,054	7,054
Long-term debt - current portion	239,893	235,229
Total Current Liabilities	308,752	338,632
<i>Long-Term Liabilities</i>		
Customer meter deposits	184,740	174,977
Long-term debt - less current maturities	2,847,244	3,113,581
Total Long-Term Liabilities	3,031,984	3,288,558
Net Position		
Invested in capital assets - net of related debt	2,920,352	2,214,578
Restricted	313,598	296,581
Unrestricted	679,148	520,500
Total Net Position	3,913,098	3,031,659
Total Liabilities and Net Position	\$ 7,253,834	\$ 6,658,849

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, 2023 and 2022

	2023	2022
Operating Revenues		
Water revenues	\$ 1,388,237	\$ 1,324,436
Sewer revenues	4,497	0
Late fees	17,728	15,109
Fee and permit revenue	122,353	109,116
Miscellaneous	9,300	0
Total Operating Revenues	1,542,115	1,448,661
Operating Expenses		
Credit losses	724	1,930
Cell phone badger meters	17,860	20,339
Depreciation	244,544	194,630
Fuel and oil	19,643	24,568
Insurance	46,950	38,781
Miscellaneous	5,016	1,079
Office supplies	1,279	816
Payroll taxes	24,065	24,018
Postage	6,843	6,521
Professional fees and dues	53,906	34,204
Repairs and maintenance	167,845	118,923
Retirement	6,048	4,747
Salaries and wages	319,023	314,043
Uniforms	388	2,179
Utilities and telephone	21,098	15,897
Water purchases	490,730	413,573
Total Operating Expenses	1,425,962	1,216,248
Operating Income	116,153	232,413
Non-Operating Revenues (Expenses)		
Interest income	10,208	3,731
Gain (loss) on asset disposals	30,400	0
Interest expense	(87,956)	(97,443)
Total Non-Operating Revenues (Expenses)	(47,348)	(93,712)
Income (loss) before capital contributions	68,805	138,701
Contributions in aid of construction	812,634	189,895
Change in Net Position	881,439	328,596
Net position - beginning of the year	3,031,659	2,703,063
Net Position - End of Year	\$ 3,913,098	\$ 3,031,659

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, 2023 and 2022

	2023	2022
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 1,535,650	\$ 1,429,660
Cash paid to suppliers and employees	(1,198,292)	(1,019,534)
Net increase in meter deposits	9,763	6,399
Net cash provided by (used in) operating activities	347,121	416,525
Cash Flows (Provided) Used by Investing Activities		
Interest received on certificates of deposit	10,208	3,731
Net cash provided by (used in) investing activities	10,208	3,731
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Purchase of facilities and equipment	(688,647)	(456,014)
Proceeds from sale of fixed assets	30,400	0
Proceeds from capital contributions	812,634	189,895
Loan proceeds	0	302,541
Payments of long-term debt	(261,673)	(438,311)
Interest paid on debt	(89,965)	(97,443)
Net cash provided by (used in) capital and related financing activities	(197,251)	(499,332)
Net increase (decrease) in cash and cash equivalents	160,078	(79,076)
Cash and cash equivalents - beginning of year	901,732	980,808
Cash and Cash Equivalents - End of Year	\$ 1,061,810	\$ 901,732
Cash and Cash Equivalents Reconciliation		
Cash and cash equivalents	\$ 748,212	\$ 605,151
Restricted cash and cash equivalents	313,598	296,581
Total Cash and Cash Equivalents - End of Year	\$ 1,061,810	\$ 901,732

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, 2023 and 2022

	2023	2022
Reconciliation of change in net position to net cash provided by (used in) operating activities		
Operating income	\$ 116,153	\$ 232,413
Adjustments to reconcile increase in operating revenue to net cash provided by (used in) operating activities:		
Depreciation	244,544	194,630
Decrease (increase) in assets		
Accounts receivable	(10,787)	(8,089)
Accrued water revenue	4,322	(10,912)
Prepaid expenses	(1,618)	(363)
Inventory	17,279	1,851
Increase (decrease) in liabilities		
Accounts payable	(35,991)	2,964
Payroll taxes and withholdings payable	0	(291)
Sales tax payable	930	(385)
Wages payable	2,526	(1,692)
Customer meter deposits	9,763	6,399
Total adjustments	230,968	184,112
Net Cash Provided by (Used in) Operating Activities	\$ 347,121	\$ 416,525

See independent auditor's report and the accompanying 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 and sewer systems.

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:

	2023	2022
Unrestricted - cash	\$ 559,433	\$ 420,118
Unrestricted - certificates of deposit	188,779	185,033
Total Unrestricted	<u>748,212</u>	<u>605,151</u>
Restricted - cash	248,178	66,237
Restricted - certificates of deposit	65,420	230,344
Total Restricted	<u>313,598</u>	<u>296,581</u>
Total Cash and Cash Equivalents	<u>\$ 1,061,810</u>	<u>\$ 901,732</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.”

Accounts Receivable. Accounts receivable consists of credit extended to WWSD’s customers in the normal course of business. WWSD considers all receivables to be fully collectible; accordingly, no allowance for credit loss has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collection on accounts previously written off are included in income when received.

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, 2023 and 2022.

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
Sewer Treatment Plant	60 years
Sewer System	20-40 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, 2023 and 2022.

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.

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 31, 2024, 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, 2023 and 2022.

Reclassifications. Certain 2022 amounts have been reclassified to conform to the 2023 presentation.

Note 3 – Restricted Assets

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

	2023	2022
Bond and note reserve funds:		
Debt service reserve funds	\$ 143,505	\$ 117,408
Other restricted assets:		
Depreciation reserves	170,093	179,173
Total restricted assets	\$ 313,598	\$ 296,581

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, 2023 and 2022, WWSD had adequately funded its required reserves.

Note 3 – Restricted Assets (continued)

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, 2023, WWSD had underfunded its required reserves by \$4,963. At December 31, 2022, WWSD had overfunded its required reserves by \$660.

At December 31, 2023 and 2022, 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, 2023 and 2022, 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 has received 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, 2023 and 2022, were \$6,048 and \$4,747, respectively.

Note 6 – Water Revenue

There were approximately 1,902 and 1,852 customers as of December 31, 2023 and 2022, respectively. The gross revenues received from water service, sewer service, connection and reconnection fees, plumbing inspections, service, and late fees were \$1,542,115 and \$1,448,661 for the years ended December 31, 2023 and 2022, respectively.

The following water rates were in effect for 2023 and 2022:

<u>January 1, 2023 to December 31, 2023</u>		<u>January 1, 2022 to December 31, 2022</u>	
<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	\$31.25 minimum	First 1,000 gallons	\$31.25 minimum
Over 1,000 gallons	\$7.20 per 1,000	Over 1,000 gallons	\$6.90 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	\$33.39 minimum	First 1,000 gallons	\$33.39 minimum
Over 1,000 gallons	\$7.72 per 1,000	Over 1,000 gallons	\$7.42 per 1,000

Note 7 – Contributions in Aid of Construction

Capital contributions consist of funds received for the purpose of bettering and improving the water and sewer systems. WWSD received capital contributions of \$812,634 and \$189,895 during the years ended December 31, 2023 and 2022, respectively.

(a component unit of the City of Wooster, Arkansas)
Notes to the Financial Statements
For the Years Ended December 31, 2023 and 2022

Note 8 – Capital Assets

Capital asset activity was as follows:

	Balance 12/31/2022	Transfers In/ Additions	Transfers Out/ Disposals	Balance 12/31/2023
Capital Assets				
<i>Non-depreciable:</i>				
Land	\$ 33,319	\$ 0	\$ 0	\$ 33,319
Work in progress	1,279,103	0	(1,279,103)	0
Total Non-Depreciable	1,312,422	0	(1,279,103)	33,319
<i>Depreciable:</i>				
Office building	117,116	0	0	117,116
Equipment and storage building	1,372,894	68,140	(40,090)	1,400,944
Water system	5,023,755	10,545	0	5,034,300
Sewer system	0	1,889,064	0	1,889,064
Total	6,513,765	1,967,749	(40,090)	8,441,424
<i>Less accumulated depreciation:</i>				
Office building	(58,719)	(3,209)	0	(61,928)
Equipment and storage building	(688,340)	(90,029)	39,815	(738,554)
Water system	(1,515,740)	(114,144)	0	(1,629,884)
Sewer system	0	(36,886)	0	(36,886)
Total	(2,262,799)	(244,268)	39,815	(2,467,252)
Total Depreciable - Net	4,250,966	1,723,481	(275)	5,974,172
Total Capital Assets - Net	\$ 5,563,388	\$ 1,723,481	\$ (1,279,378)	\$ 6,007,491
	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
Sewer system	0	0	0	0
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)
Sewer system	0	0	0	0
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

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, 2023 and 2022

Note 9 – Notes Payable

Notes payable consisted of the following:

	2023	2022
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.	\$ 8,235	\$ 15,015
7.80% note payable to a finance company, due in monthly installments of \$558 including interest, secured by equipment, due in April 2023.	0	1,969
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.	8,664	12,224
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.	12,617	14,795
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.	12,617	14,790
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.	352,757	364,765
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.	106,837	117,493
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.	2,052,259	2,155,429
Subtotal	\$ 2,553,986	\$ 2,696,480

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, 2023 and 2022

Note 9 – Notes Payable (continued)

	2023	2022
Subtotal from previous page	\$ 2,553,986	\$ 2,696,480
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.	327,641	377,138
3.80% note payable to First Service Bank, due in monthly installments of \$3,233, including interest, secured by equipment, due in December 2027.	129,623	176,191
4.14% note payable to a finance company, due in variable monthly installments including interest, secured by equipment, due in April 2027.	75,887	99,001
Total Notes Payable	3,087,137	3,348,810
Less: current maturities	239,893	235,229
Net Long-Term Notes Payable	\$ 2,847,244	\$ 3,113,581
Total long-term debt - beginning of year	\$ 3,348,810	\$ 3,265,580
Loan Proceeds	0	302,541
Repayments of long-term debt	(261,673)	(219,311)
Total long-term debt - end of year	\$ 3,087,137	\$ 3,348,810

Future minimum payments on these notes are as follows:

<u>December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 239,893	\$ 83,162	\$ 323,055
2025	240,637	76,384	317,021
2026	246,261	69,556	315,817
2027	220,691	62,678	283,369
2028	195,028	57,022	252,050
2029-2033	880,389	212,946	1,093,335
2034-2038	820,816	102,137	922,953
2039-2043	243,422	10,214	253,636
	\$ 3,087,137	\$ 674,099	\$ 3,761,236

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 \$156,309 in payments. On December 24, 2022, the line of credit matured and converted to a promissory note in the amount of \$176,191 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, 2023 and 2022

Note 11 – Insurance

The insurance policies in force at December 31, 2023, are as follows:

Company	Policy	Expiration	Amount of Coverage
Owners Insurance Co.	General Liability	1/17/2024	\$ 300,000
Owners Insurance Co.	Commercial Property	5/3/2024	\$ 1,547,071
Arkansas Municipal League	Auto	5/12/2024	\$ 1,108,921
Arkansas Government Bonding Board	Employee Dishonesty	4/4/2024	\$ 250,000 (per occurrence)

WWSD’s general liability insurance coverage was cancelled effective January 17, 2024. General liability insurance coverage was investigated starting in September 2024. Continuing general liability insurance coverage was not effective until December 1, 2024.

Note 12 – Concentrations of Credit Risk

Financial instruments that potentially subject WWSD to concentration of credit risk consists primarily of cash and 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 \$1,061,810 and \$901,732 at December 31, 2023 and 2022, respectively; and the bank balances were \$1,055,914 and \$964,352 at December 31, 2023 and 2022, 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 \$555,914 and \$431,820 at December 31, 2023 and 2022, respectively. The remaining bank balances were collateralized by pledged securities and letters of credit of the financial institutions in the amount of \$650,000 in 2023 and 2022.

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 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 for the year ended December 31, 2022. The lease payments were included in work in progress at December 31, 2022.

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, 2023 and 2022.

**Other
Required
Reports**



GARLAND & GREENWOOD

CPAs and Advisors, PLLC

John S. Brock | Jake Froemsdorf | Rocky Goodman | Greg Schichtl

City Council
City of Wooster Water Service Department
(a component unit of the City of Wooster, Arkansas)
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 (a component unit of the City of Wooster, Arkansas) of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Wooster Water Service Department's basic financial statements and have issued our report thereon dated December 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the City of Wooster Water Service Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Wooster Water Service Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings as items 2023-01, 2023-02, and 2023-03 that we consider to be material weaknesses and significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

City of Wooster Water Service Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Wooster Water Service Department's response to the findings identified in our audit and described in the accompanying schedule of findings. City of Wooster Water Service Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 31, 2024

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, 2023 and 2022

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?	<u> X </u> Yes	<u> </u> No
Significant Deficiency(ies) Identified?	<u> X </u> Yes	<u> </u> No
Noncompliance Material to Financial Statements Noted?	<u> </u> Yes	<u> X </u> No

Section II - Government Auditing Standards Findings

Finding 2023-01: Inadequate monitoring and recording of contribution in aid receipts.

Criteria: Accounting principles generally accepted in the United States of America state that contributions received shall be recognized as revenues or gains in the period received as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Cause: WWSD failed to record expenditures paid on their behalf totaling approximately \$652,000 in the financial statements due to a lack of understanding regarding the specific accounting principle.

Effect: WWSD is at risk of material misstatements in the financial statements due to underreported revenue or assets.

Recommendation: We recommend that management establish a formal review process for all contribution in aid receipts to ensure proper recording of revenues or assets in the financial statements.

Management Response: WWSD management concurs with the finding and will implement a review process, including staff training, to be effective during the year ended December 31, 2024.

Finding 2023-02: Inadequate monitoring and payment of payroll withholdings.

Criteria: Arkansas law requires employers to withhold state income tax from employees' wages and remit the amounts withheld to the Department of Finance and Administration on a monthly basis.

Cause: WWSD failed to pay state payroll withholdings for four months of 2023.

Effect: WWSD is at risk of facing civil, criminal, and monetary sanctions which could result in material misstatements in the financial statements due to underreported expenses and contingencies that are not reported.

Recommendation: We recommend that management establish a formal process to monitor and remit payroll withholdings to be in compliance with Arkansas law.

Management Response: WWSD management concurs with the finding. This was an irregular occurrence due to severe computer issues ultimately resulting in extended down time of approximately four months when the payment of the state payroll withholdings was delayed. Assistance was required from our provider's technical support team to resolve the issue. Delayed payment of state payroll withholdings has not occurred during any other time. A review process will be established to monitor and correct the finding during the year ended December 31, 2024.

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, 2023 and 2022

Section II - Government Auditing Standards Findings (continued)

Finding 2023-03: Inadequate monitoring and retention of insurance coverage.

Criteria: The absence of insurance coverage exposes WWSD to potential substantial financial losses if an accident of failure occurs.

Cause: WWSD allowed general liability insurance and commercial property insurance to lapse in 2024.

Effect: WWSD is at risk of not properly safeguarding their assets resulting in material misstatements in financial statements due to underreported liabilities or insufficient reserves.

Recommendation: We recommend that management establish a formal review process in determining active insurance coverage.

Management Response: WWSD management concurs with the finding. This finding occurred due to miscommunication with the insurance providers. Insurance was applied for and delayed in underwriting causing a four-month period before coverage was reissued. A review process will be implemented during the year ended December 31, 2024, to monitor and correct the finding.