

WALKER WATER ASSOCIATION, INC.

DECEMBER 31, 2023

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

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INDEPENDENT AUDITORS' REPORT

Walker Water Association, Inc.
P. O. Box 188
Magnolia, Arkansas 71754-0188

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Walker Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Walker Water Association, Inc. as of December 31, 2023, and the changes in its net assets and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 Walker Water Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Walker Water Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Walker Water Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about Walker Water Association, Inc.'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.

Report on Supplementary Information

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information shown on pages 15 to 17 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2024, on our consideration of the Walker Water Association, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Walker Water Association, Inc.'s internal control over financial reporting and compliance.



Wood and Wood, Ltd.
Magnolia, AR

August 22, 2024

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENT OF FINANCIAL POSITION
December 31, 2023

ASSETS

Cash and Cash Equivalents	
Operations	\$ 220,682
Designated	188,133
Escrow	2,648
Accounts Receivable-Customers	51,842
Prepaid Insurance	4,882
Property, Plant and Equipment, Net of Depreciation	<u>1,079,445</u>
Total Assets	<u>\$ 1,547,632</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	\$ 3,505
Accrued Payroll and Taxes	1,350
Sales Tax Payable	2,213
Pure Water Assessment Payable	1,128
Payable from Designated Assets	
Accrued Interest Payable	1,717
Notes Payable-Current Portion of Long-Term Debt	54,030
Meter Deposits Payable	38,343
Long-Term Debt	<u>418,197</u>
Total Liabilities	<u>\$ 520,483</u>

Net Assets

Without Donor Restrictions	\$ 930,458
Designated by Contractual Obligation	<u>96,691</u>
Total Net Assets	<u>\$ 1,027,149</u>

Total Liabilities and Net Assets \$ 1,547,632

The accompanying notes are an integral part of these financial statements.

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total Activity
<u>Revenue, Gains and Other Support</u>			
Income-Water Sales	\$ 379,283	\$ 0	\$ 379,283
Income-Late Fees and Other	22,387		22,387
Income-Grant	5,551		5,551
Income-Interest	2,865		2,865
Total Revenue	\$ 410,086	\$ 0	\$ 410,086
<u>Expenses and Losses</u>			
Purchased Water	\$ 27,634	\$ 0	\$ 27,634
Chemicals and Supplies	26,263		26,263
Advertising, Dues, and Subscriptions	1,078		1,078
Insurance	16,388		16,388
Salaries, Wages, and Labor	109,308		109,308
Travel and Meetings	583		583
Legal and Accounting	10,545		10,545
Office Expenses	10,513		10,513
Taxes	6,005		6,005
Miscellaneous	4,038		4,038
Utilities and Telephone	25,808		25,808
Repairs and Maintenance	44,035		44,035
Automotive	12,919		12,919
Depreciation	100,614		100,614
Interest	22,647		22,647
Total Expenses and Losses	\$ 418,378	\$ 0	\$ 418,378
Change in Net Assets	\$(8,292)	\$ 0	\$(8,292)
Net Assets, Beginning of Year	1,035,441		1,035,441
Net Assets, End of Year	\$ 1,027,149	\$ 0	\$ 1,027,149

The accompanying notes are an integral part of these financial statements.

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENT OF FUNCTIONAL EXPENSE
For the year ended December 31, 2023

	Program Services	Management and General	Total
Purchased Water	\$ 27,634	\$	\$ 27,634
Chemicals and Supplies	26,263		26,263
Advertising, Dues and Subscriptions		1,078	1,078
Insurance	16,388		16,388
Salaries, Wages and Labor	82,136	27,172	109,308
Travel and Meetings	583		583
Legal and Accounting	6,465	4,080	10,545
Office Expense	7,018	3,495	10,513
Taxes-Payroll	4,004	2,001	6,005
Miscellaneous	4,038		4,038
Utilities and Telephone	24,991	817	25,808
Repairs and Maintenance	38,655	5,380	44,035
Automotive	12,919		12,919
Depreciation	98,087	2,527	100,614
Interest	22,647		22,647
Total Functional Expenses	\$ 371,828	\$ 46,550	\$ 418,378

The accompanying notes are an integral part of these financial statements.

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENT OF CASH FLOWS
For the year ended December 31, 2023

Cash Flows from Operating Activities

Changes in Net Assets	\$(8,292)
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	100,614
(Increase) Decrease in Accounts Receivable-Customers	(2,480)
(Increase) Decrease in Prepaid Assets	(1,032)
Increase (Decrease) in Accounts Payable	(1,698)
Increase (Decrease) in Accrued Expenses	(909)
Increase (Decrease) in Accrued Payroll and Taxes	(492)
Increase (Decrease) in Meter Deposits	1,525
Net Cash Provided (Used) by Operating Activities	<u>\$ 87,236</u>

Cash Flows from Financing Activities

Purchases of Equipment	\$(9,228)
Principal Payment, Long-Term Debt	<u>(51,988)</u>
Net Cash Provided (Used) by Financing Activities	<u>\$(61,216)</u>

Net Increase (Decrease) in Cash and Cash Equivalents \$ 26,020

Cash and Cash Equivalents, Beginning of Year 385,443

Cash and Cash Equivalents, End of Year \$ 411,463

Supplemental Information

Total Interest Paid \$ 22,831

The accompanying notes are an integral part of these financial statements.

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

NOTES TO ACCOMPANY FINANCIAL STATEMENTS
December 31, 2023

Note A: Summary of Significant Accounting Policies

Walker Water Association, Inc., was formed as a domestic non-profit corporation, for a period of fifty years, without capital stock on September 30, 1969, under the laws of the State of Arkansas, for the primary purpose of associating its members together for their mutual benefit to construct, maintain and operate a private water system for the supplying of water to its members in designated areas of Columbia County, Arkansas, and engage in any activity related thereto. An elected board of directors conducts operations of the corporation. In October of 2018 the board was authorized to request from the Secretary of State a change to perpetual existence.

The accounting policies of Walker Water Association, Inc. are designed to conform to accounting principles generally accepted in the United States of America applicable to domestic non-profit corporations engaged in supplying water to its members.

(1) The Reporting Entity

Walker Water Association, Inc., is an independent entity, and conducts its operations in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to its members on a continuing basis be financed or recovered through user charges.

(2) Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurements made regardless of the measurement focuses applied. The Walker Water Association, Inc. uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when they are incurred.

(3) Cash and Cash Equivalents

Walker Water Association, Inc. maintains cash deposits and cash equivalents; ie; checking accounts, and certificates of deposit in area banks.

For purposes of the statement of cash flows, Walker Water Association, Inc., considers checking accounts, savings accounts, and certificates of deposit to be cash and/or cash equivalents.

(4) Accounts Receivable

Walker Water Association, Inc. member water usage is billed to the users (members) in the month of usage and recorded as accounts receivable. The meters are read toward the end of each month prior to billing. There are no unbilled receivables. Accounts are presented net of write offs. The Association uses the direct write off method to account for bad debts as meter deposits are held in lieu of using an allowance.

(5) Property, Plant and Equipment and Long-Term Debt

The accounting and reporting treatment applied to property and equipment and long-term liabilities of Walker Water Association, Inc. are determined by its measurement focus.

Property, plant and equipment are valued at historical cost. Donated property and equipment are valued at their estimated fair market value on the date donated.

Walker Water Association, Inc. accounts for its property, plant and equipment on a cost of service or "capital maintenance" measurement focus; ie; all assets or liabilities (whether current on non-current) are included on its balance sheet.

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis. The estimated useful lives are as follows:

Water System and Extensions	40 Years
Automotive Equipment	5 Years
Office Equipment	5 Years

(6) Payable from Designated Assets

Walker Water Association, Inc. designates certain assets for the payment of; member meter deposits; required debt service; debt service reserves and depreciation reserves. These assets are as follows:

Cash in Bank-Meter Deposits	\$ 41,825
Cash in Bank-Depreciation Reserve	46,346
Cash in Bank-Debt Service Reserve	<u>99,962</u>
	<u>\$ 188,133</u>

(7) Credit Risk

Walker Water Association, Inc. provides water to its members located in designated rural areas of Columbia County, Arkansas.

(8) Income Taxes

Walker Water Association, Inc. was incorporated as a domestic non-profit corporation. The Association is exempt from federal income taxes under Internal Revenue Code section 501(c) (12).

The Association's Form 990, Return of Organization Exempt from Income Taxes, as above noted for the years ending 2020, 2021, 2022, and 2023 are subject to examination by the Internal Revenue Service, generally for the period of three years after they were filed.

(9) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Note B: Property and Equipment

The following is a summary of property, plant and equipment of Walker Water Association, Inc., as recorded as of December 31, 2023. The cost/basis of the assets designated as "Water System," and "Land" were determined from the supervised bank records of USDA-RUS and grant expenditure summary of the ACEDP.

	Cost or Basis	Depreciation		Book Value 12-31-23
		Prior	Current	
Office Equipment	\$ 19,920	\$ 19,012	\$ 294	\$ 614
Automotive	25,634	20,631	1,058	3,945
System-Original -1972	57,430	57,430		0
System-2 nd phase-1986	475,322	428,780	11,883	34,659
System-3 rd phase-1993	1,606,779	1,164,915	40,169	401,695
Other System Equipment	123,551	77,217	12,201	34,133
Land-Easements-1993	11,642			11,642
Building	89,275	6,680	2,233	80,362
Tank Rehabilitation and Well Improve	647,803	102,632	32,776	512,395
	<u>\$ 3,057,356</u>	<u>\$ 1,877,297</u>	<u>\$ 100,614</u>	<u>\$ 1,079,445</u>

Depreciation for the year ending December 31, 2023 is stated as \$100,614.

The following is a summary of additions and reductions to property, plant, and equipment:

	Cost Recorded 12-31-22	Adds/Reclass 2023	Reductions 2023	Cost Balance 12-31-23
Office Equipment	\$ 19,920	\$	\$	\$ 19,920
Automotive	25,634			25,634
System, Original-1972	57,430			57,430
System, 2 nd Phase-1986	475,322			475,322
System, 3 rd Phase-1993	1,606,779			1,606,779
Other System Equipment	114,323	9,228		123,551
Land-Easement-1993	11,642			11,642
Building	89,275			89,275
Tank Rehabilitation and Well Improve	647,803			647,803
	<u>\$ 3,048,128</u>	<u>\$ 9,228</u>	<u>\$ 0</u>	<u>\$ 3,057,356</u>

Note C: Long Term Liabilities

The long-term debt of Walker Water Association, Inc. presently consists of one loan from the United States Department of Agriculture- Rural Utilities System and one note from the Arkansas Natural Resources Commission.

Loan designated 91-5 dated 3-4-93 in the original amount of \$1,009,500, at the rate of 5.00% is relative to the 3rd phase construction completed in 1993. The balance of loan No. 91-5 as of December 31, 2023 is \$416,010.

The obligation above described as USDA-RUS loans are payable solely from revenues derived from the operations of the system. The resolutions authorizing and providing for the incurrence of indebtedness provides for a pledge of sufficient amounts of system revenues to pay principal and interest on such loans as well as providing for a statutory mortgage lien upon the water system (including all improvements, extensions and betterments now and hereafter existing) which shall exist in the favor of the mortgage holder (United States Department of Agriculture-Rural Utilities System) and the water system shall remain subject to such statutory mortgage lien until full payments of the note principal and interest is made.

The annual requirements to amortize the outstanding loan, subsequent to the payment of required interest payments for the ensuing five-year period is as follows:

USDA-RUS-Loan No. 91-5

Year Ending December 31	Payment Amount	Principal Payment	Loan Interest
2024	\$ 59,484	\$ 39,484	\$ 20,000
2025	59,484	41,567	17,917
2026	59,484	43,698	15,786
2027	59,484	45,939	13,545
2028	59,484	48,260	11,224
2029-2032	215,933	197,062	18,871
	<u>\$ 513,353</u>	<u>\$ 416,010</u>	<u>\$ 97,343</u>

Walker Water Association's, Inc., loan resolution security agreements relative to the USDA-Rural Utility Service Loan Agreement 91-5 dated March 4, 1993, respectively, require the following bank accounts be established when the system becomes operational and is providing services to its members.

- (1) Revenue Fund Accounts-All revenues received through its operations are to be deposited in this account. The disbursement priority from this account is as follows:
 - (a) Payment to a debt service account.
 - (b) Payment of the estimated monthly cost of operation and maintenance to an account designated "Operation and Maintenance Account."
 - (c) Payment to a depreciation account.
 - (d) Other requirements.
- (2) Debt Service Account-This account is required to be established for the UDSA-RUS loan. As long as USDA-RUS loan 91-5 has a balance. Transfers are to be made from the revenue funds (1)(a) above on monthly basis as follows:
 - (a) Monthly Installment Note: An amount equal to the next monthly installment is to be transferred.
- (3) Operation and Maintenance Account-Subsequent to the required transfers to the debt service account(s) an amount sufficient to pay reasonable and necessary current expenses of operating and maintaining the facility for the current month is to be transferred to the account designated "Operation and Maintenance."
- (4) Debt Service Reserve/Depreciation Account-These accounts are to be funded from the revenue fund account subsequent to transfers required in items (2) and (3) above.
 - (a) Loan No. 91-5: Requires the establishment of a "Debt Service Reserve Account." Funding requirements: The transfer of \$496 per month for a period of ten years until the amount of \$59,481 has been transferred.

The association presently designates the following accounts as debt service reserve and depreciation accounts.

			Balances	
			12-31-23	12-31-22
BO	No. 2100010952	Debt Service Reserve	6,996	6,989
BO	No. 1100005337	Debt Service Account	92,966	92,966
FBT	No. 1113000	Depreciation Fund	46,346	29,929
			<u>\$ 146,308</u>	<u>\$ 129,884</u>

The debt service reserves required on Loan No. 91-5 as of December 31, 2023 are as follows:

Loan No. 91-5	Debt Service Reserve	\$ 59,481
		<u>\$ 59,481</u>

The accumulated funds, when necessary, may be used for the following purposes:

- (a) When necessary, these funds may be used for payment of debt service requirements, if such funds are not available in the debt service account. However, such funds are required to be replaced if such use depletes the account (s) below loan requirements.

- (b) With prior written approval of the government, funds may be withdrawn for the following purposes. However, such funds are required to be replaced if such use depletes the account(s) below loan requirements.
1. Payment of repair or replacing any damage to the system, which may have been caused by catastrophe.
 2. Making extensions or improvements to the system.

Walker Water Association, Inc. on July 19, 2017, entered into a bond purchase agreement with the Arkansas Natural Resources Commission and the Arkansas Drinking Water Revolving Loan Fund Program. The agreement specifies that the Arkansas Natural Resources Commission purchase the revenue loan in the amount of \$150,000 from monies in the Arkansas Drinking Water Revolving Loan Fund. Repayment of the loan is to be made in accordance with specifications contained in the bond purchase agreement. The loan is payable beginning April 15, 2021, at the rate of 1.50%.

The annual requirements to amortize the outstanding loan, subsequent to the payment of required interest payments for the ensuing five-year period are as follows:

ANRC Bond-Series 2018A

Year Ending December 31	Payment Amount	Principal Payment	Loan Interest
2024	\$ 15,335	\$ 14,546	\$ 789
2025	15,335	14,765	570
2026	15,335	14,987	348
2027	12,040	11,919	121
	<u>\$ 58,045</u>	<u>\$ 56,217</u>	<u>\$ 1,828</u>

Walker Water Association's, Inc., bond resolution security agreements relative to the ANRC Bond Agreement Series 2018A dated October 4, 2018, requires the following bank accounts be established when the system becomes operational and is providing services to its members.

- (1) Revenue Fund Accounts-All revenues received through its operations are to be deposited in this account. The disbursement priority from this account is as follows:
 - (a) Payment to a debt service account.
 - (e) Payment of the estimated monthly cost of operation and maintenance to an account designated "Operation and Maintenance Account."
 - (f) Payment to a depreciation account.
 - (g) Other requirements.
- (2) Debt Service Account-This account is required to be established for the ANRC Bond Series 2018A. As long as the ANRC Bond Series 2018A has a balance, transfers are to be made from the revenue funds (1)(a) above on monthly basis as follows:

Semi-Annual Installment Note: An amount equal to 1/6th of the semi-annual installment note is to be transferred.
- (3) Operation and Maintenance Account-Subsequent to the required transfers to the debt service account(s) an amount sufficient to pay reasonable and necessary current expenses of operating and maintaining the facility for the current month is to be transferred to the account designated "Operation and Maintenance."
- (4) Depreciation Account-These accounts are to be funded from the revenue fund account subsequent to transfers required in items (2) and (3) above.

Bond Series 2018A: Requires the establishment of a "Depreciation Reserve Account." Funding requirements: The transfer of 3% of gross revenues per month until the amount of \$70,000 has been transferred.

The accumulated funds, when necessary, may be used for the following purposes:

When necessary, these funds may be used for payment of debt service requirements, if such funds are not available in the debt service account. However, such funds are required to be replaced if such use depletes the account (s) below loan requirements.

With prior written approval of the government, funds may be withdrawn for the following purposes. However, such funds are required to be replaced if such use depletes the account(s) below loan requirements.

3. Payment of repair or replacing any damage to the system, which may have been caused by catastrophe.
4. Making extensions or improvements to the system.

Note D: Deposits

On December 31, 2023, the bank's carrying balance of Walker Water Association, Inc.'s, bank balances were \$415,676. The book balance of Walker Water Association, Inc.'s, bank balances were \$408,615. These balances are in excess of Federal Depository Insurance Corporation coverage, at one bank by \$19,055.

Note E: Fair Value

The carrying amounts reflected in the statement of financial position relative to cash and cash equivalents, accounts receivable, and accounts payable do approximate the respective fair value of such amounts. The long-term debt of the entity, as presented on the statement of financial position, approximates the market price of such instruments in similar circumstances.

Note F: Net Asset Classification

The following tabulation presents the components of net assets, without donor restrictions and without donor restrictions designated by contractual obligations as of December 31, 2023.

	<u>W/out Donor Restrictions</u>	<u>Designated Cont. Oblig.</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 220,682	\$ 190,781
Accounts Receivable-Customers	51,842	
Prepaid Insurance	4,882	
Property and Equipment	<u>1,079,445</u>	
Total Assets	<u>\$ 1,356,851</u>	<u>\$ 190,781</u>
<u>Liabilities</u>		
Accounts Payable	\$ 3,505	\$
Accrued Payroll and Taxes	1,350	
Sales Tax Payable	2,213	
Pure Water Assessment Payable	1,128	
Accrued Interest Payable		1,717
Notes Payable, Current		54,030
Meter Deposits Payable		38,343
Note Payable, Long-Term	<u>418,197</u>	
Total Liabilities	<u>\$ 426,393</u>	<u>\$ 94,090</u>
Net Assets	<u>\$ 930,458</u>	<u>\$ 96,691</u>

Note G: Water Purchase Contract

Presently Walker Water Association, Inc., purchases water, when necessary, under contract, from the Magnolia, Arkansas Municipal Water System.

Note H: Insurance in Force

Walker Water Association, Inc., in accordance with the provisions of the letter(s) of conditions relative to the United States Department of Agriculture-Rural Utilities System loan to the association, the following types of insurance are required during the lifetime of such loan.

- (1) Fidelity Bonds: Required on the position of treasurer and/or any other employee having custody of funds. The amount of the bond is to be equal to the total amount of funds in such employee's custody at any one time.
- (2) Property Insurance: Fire and extended coverage on all above ground structures excluding reservoirs, standpipes, and elevated tanks.
- (3) Public Liability Insurance: Automotive insurance, owned and non-owned.
- (4) Workmen's Compensation Insurance: Required on all employees in accordance with Arkansas law.

The following is a tabulation of insurance in force as of December 31, 2023. Policy (1) is issued by the Shelter Insurance Co. and expires May 1, 2024. Policy (2) is issued by Bridgefield Casualty Insurance Company and expires May 1, 2024. Policy (3) is written by AFCO Insurance Companies and expires May 1, 2024. Policy (4) is a fidelity bond written by CNA Surety Co. and expires September 12, 2024.

- | | |
|--|----------------------------|
| (1) Automotive, Owned and non-owned 03-1-3168041-2 | \$1,000,000 per Occurrence |
| (2) Workmen's Compensation 0196-36741 | Statutory Coverage |
| (3) General Liability, Property and Commercial Application Policies include the following: | |
| General Liability | \$1,000,000 |
| Property (fire and extended coverage) | \$549,711 |
| Commercial Application | All property |
| (5) Employee Dishonesty, Policy No. 61464596 provides coverage of \$100,000. | |

Note I: Liquidity

Walker Water Association, Inc. manages its cash available to meet general expenditures through the following guiding principles: (1) Operating within a prudent range of financial soundness and stability, and (2) Maintaining adequate liquid assets.

The following provides a summary of financial assets available for general expenditures as of December 31, 2023:

Cash and Cash Equivalents	\$ 411,463
Accounts Receivable	<u>51,842</u>
Financial Assets at Year-End	\$ 463,305
Amounts not Available for General Expenditure within 1 Year	
Designated Cash for Debt Service and Depreciation	(146,308)
Designated Cash for Meter Deposits	<u>(38,343)</u>
Financial Assets Available to Meet Requirements within 1 Year	<u>\$ 278,654</u>

Note J: Management Review

The Association has evaluated subsequent events through August 22, 2024, the date the financial statements were available to be issued.

SUPPLEMENTARY FINANCIAL INFORMATION

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

ASSETS

	2023	2022
Cash and Cash Equivalents		
Operations	\$ 220,682	\$ 211,488
Designated	188,133	171,361
Escrow	2,648	2,594
Accounts Receivable-Customers	51,842	49,362
Prepaid Insurance	4,882	3,850
Property, Plant and Equipment, net	1,079,445	1,170,831
Total Assets	\$ 1,547,632	\$ 1,609,486

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	\$ 3,505	\$ 5,203
Accrued Payroll and Taxes	1,350	1,842
Sales Tax Payable	2,213	2,374
Pure Water Assessment Payable	1,128	1,692
Payable from Designated Assets		
Accrued Interest Payable	1,717	1,901
Notes Payable-Current Portion of Long-Term Debt	54,030	50,634
Meter Deposits Payable	38,343	36,818
Long-Term Debt	418,197	473,581
Total Liabilities	\$ 520,483	\$ 574,045

Net Assets

Without Donor Restrictions	\$ 930,458	\$ 950,839
Designated by Contractual Obligations	96,691	84,602
Total Net Assets	\$ 1,027,149	\$ 1,035,441
Total Liabilities and Net Assets	\$ 1,547,632	\$ 1,609,486

See Independent Auditors' Report

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2023 and 2022

	2023	2022
<u>Revenues, Gains and Other Support</u>		
Income-Water Sales	\$ 379,283	\$ 364,941
Income-Late Fees, connections, etc.	22,387	13,275
Income-Grants	5,551	27,393
Income-Interest	2,865	450
Total Revenue	\$ 410,086	\$ 406,059
 <u>Expenses and Losses</u>		
Purchased Water	\$ 27,634	\$ 10,084
Chemicals and Supplies	26,263	8,398
Advertising, Dues, and Subscriptions	1,078	950
Insurance	16,388	11,733
Salaries, Wages, and Labor	109,308	108,097
Travel and Meetings	583	769
Legal and Accounting	10,545	9,896
Office Expenses	10,513	7,230
Taxes	6,005	5,549
Miscellaneous	4,038	1,805
Utilities and Telephone	25,808	22,119
Repairs and Maintenance	44,035	30,939
Automotive	12,919	7,441
Depreciation	100,614	97,692
Interest	22,647	24,565
Total Expenses and Losses	\$ 418,378	\$ 347,267
 Changes in Net Assets	 \$(8,292)	 \$ 58,792
Net Assets, Beginning of Year	1,035,441	976,649
Net Assets, End of Year	\$ 1,027,149	\$ 1,035,441

See Independent Auditors' Report

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2023 and 2022

	2023	2022
<u>Cash Flows from Operating Activities</u>		
Change in Net Assets from Operations	\$(8,292)	\$ 58,792
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	100,614	97,692
(Increase) Decrease in Accounts Receivable-Customers	(2,480)	(6,510)
(Increase) Decrease in Prepaid Assets	(1,032)	(1,392)
Increase (Decrease) in Accounts Payable	(1,698)	1,202
Increase (Decrease) in Accrued Expenses	(909)	(10,212)
Increase (Decrease) in Accrued Payroll and Taxes	(492)	1,670
Increase (Decrease) in Meter Deposits	1,525	1,097
Net Cash Provided (Used) by Operating Activities	\$ 87,236	\$ 142,339
<u>Cash Flows from Financing Activities</u>		
Purchase of Equipment	\$(9,228)	\$(76,025)
Principal Payment, Long-Term Debt	(51,988)	(49,941)
Net Cash Provided (Used) by Financing Activities	\$(61,216)	\$(125,966)
Net Increase (Decrease) in Cash and Cash Equivalent	\$ 26,020	\$ 16,373
Cash and Cash Equivalents, Beginning of Year	385,443	369,070
Cash and Cash Equivalents, End of Year	\$ 411,463	\$ 385,443
<u>Supplemental Information</u>		
Total Interest Paid	\$ 22,831	\$ 24,876

See Independent Auditors' Report

SUPPLEMENTARY NON-FINANCIAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Walker Water Association, Inc.
Magnolia, Arkansas 71753

We have audited, 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, the financial statements of the Walker Water Association, Inc. as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the Walker Water Association, Inc.'s basic financial statements, and have issued our report thereon dated August 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Walker Water Association, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Walker Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Walker Water Association, Inc.'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 over financial reporting 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 have not been identified. Given the limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 23-1 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Walker Water Association, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* that are described in the accompanying schedule of findings and responses.

Walker Water Association, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Walker Water Association, Inc.'s response to findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Walker Water Association, Inc.'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 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.



Wood and Wood, Ltd.
Magnolia, AR

August 22, 2024

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2023

Internal Control

Item No. 23-1: Inherent Limitation

Condition: Absence of appropriate segregation of duties consistent with appropriate control objective; (ie; inherent limitation due to small number of employed personnel). This is a repetitive finding.

Questioned Cost: None

Effect: Not Determinable

Cause: Small Number of Employees

Recommendation: We recommend the development of policies and procedures that would further segregate the duties of employed personnel.

Management Response: Segregation of duties in the situation where a limited number of personnel is required is difficult. We will attempt to develop policies and procedures in this area wherever and whenever possible, without the hiring of an additional employee, which at this time is not justifiable economically.

WALKER WATER ASSOCIATION, INC.
Magnolia, Arkansas

SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
December 31, 2022

Internal Control

Item No. 21-1: Inherent Limitation

Condition: Absence of appropriate segregation of duties consistent with appropriate control objective; (ie; inherent limitation due to small number of employed personnel). This is a repetitive finding.

Questioned Cost: None

Response: Segregation of duties in the situation where a limited number of personnel is required is difficult. We will attempt to develop policies and procedures in this area wherever and whenever possible, without the hiring of an additional employee, which at this time is not justifiable economically.

Item No. 21-2: Compliance

Condition: Bond Series 2018A requires the establishment of a "Depreciation Reserve Account." It is to be funded with a transfer of 3% of gross revenues per month until the amount of \$70,000 has been transferred. The reserve is short by \$4,895 as of year-end.

Questioned Cost: None

Response: The shortage was transferred prior to the current year end.