

**WALNUT RIDGE WATER & SEWER WORKS**  
(A Component Unit of the City of Walnut Ridge, Arkansas)

**Audited Financial Statements**

For the Years Ended June 30, 2023 and 2022

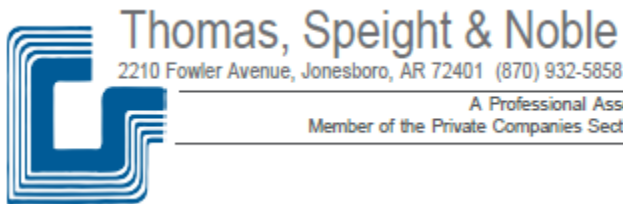
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(A Component Unit of the City of Walnut Ridge, Arkansas)  
**Audited Financial Statements**

For the Years Ended June 30, 2023 and 2022

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## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
Walnut Ridge Water & Sewer Works

### Report on the Financial Statements

#### *Opinions*

We have audited the accompanying financial statements of Walnut Ridge Water & Sewer Works, a component unit of the City of Walnut Ridge, Arkansas, as of and for the year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Walnut Ridge Water & Sewer Works basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Walnut Ridge Water & Sewer Works, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Walnut Ridge Water & Sewer Works, 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 the 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 the Walnut Ridge Water & Sewer Works' 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 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 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 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.

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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 Walnut Ridge Water & Sewer Works' 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 the Walnut Ridge Water & Sewer Works' 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 Supplementary Information***

Management has omitted the management's discussion and analysis 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2023, on our consideration of Walnut Ridge Water & Sewer Works 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Walnut Ridge Water & Sewer Works internal control over financial reporting and compliance.

***Thomas, Speight & Noble, CPAs***

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

October 15, 2023

**Walnut Ridge Water and Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Statements of Net Position**  
**For the Years Ended June 30, 2023 and 2022**

	Water 2023	Sewer 2023	Total	2022
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents - unrestricted	\$ 376,315	\$ 376,314	\$ 752,629	\$ 700,476
Customer accounts receivable	52,961	52,960	105,921	123,597
Prepaid insurance	15,124	15,124	30,248	15,560
Materials inventory (at cost)	26,748	26,748	53,496	47,720
Total current assets	471,148	471,146	942,294	887,353
<b>NON-CURRENT ASSETS</b>				
Cash and cash equivalents - restricted	801,207	867,974	1,669,181	2,487,636
Certificates of deposit - restricted	82,152	82,152	164,304	164,050
Capital assets				
Capital assets, net of accumulated depreciation	3,272,764	4,800,262	8,073,026	7,182,892
Total non-current assets	4,156,123	5,750,388	9,906,511	9,834,578
<b>TOTAL ASSETS</b>	\$ 4,627,271	\$ 6,221,534	\$ 10,848,805	\$ 10,721,931
<b><u>LIABILITIES AND NET POSITION</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 39,514	\$ 3,908	\$ 43,422	\$ 57,057
Sales tax payable	4,460	4,460	8,920	8,631
Accrued and withheld payroll taxes	1,620	1,620	3,240	5,392
Accrued wages	1,066	1,066	2,132	-
Accrued retirement	12,189	12,189	24,378	19,624
Accrued compensated absences	3,174	3,174	6,348	8,605
Current portion of long-term debt	79,461	79,460	158,921	152,548
Due to other governments	2,762	2,762	5,524	15,028
Total current liabilities	144,246	108,639	252,885	266,885
<b>LONG-TERM DEBT, net of current maturities</b>	2,832,432	2,832,434	5,664,866	5,825,304
<b>LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>				
Customer deposits	180,547	-	180,547	173,164
Accrued interest	6,102	6,102	12,204	650
Total liabilities payable from restricted assets	186,649	6,102	192,751	173,814
<b>TOTAL LIABILITIES</b>	3,163,327	2,947,175	6,110,502	6,266,003
<b>NET POSITION</b>				
Net investment in capital assets	360,871	1,888,368	2,249,239	1,205,040
Restricted for debt service	696,710	944,025	1,640,735	2,477,872
Unrestricted	406,363	441,966	848,329	773,016
Total net position	1,463,944	3,274,359	4,738,303	4,455,928
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 4,627,271	\$ 6,221,534	\$ 10,848,805	\$ 10,721,931

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

**Walnut Ridge Water and Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2023 and 2022**

	Water 2023	Sewer 2023	Total	2022
<b>OPERATING REVENUES</b>				
Water revenue	\$ 965,496	\$ -	\$ 965,496	\$ 966,381
Sewer revenue	-	519,017	519,017	515,198
Late payment charges	17,997	17,997	35,994	36,334
Miscellaneous income	113,444	113,444	226,888	215,770
Total operating revenue	<u>1,096,937</u>	<u>650,458</u>	<u>1,747,395</u>	<u>1,733,683</u>
<b>OPERATING EXPENSES</b>				
Purchased water	572,061	-	572,061	592,067
Salaries, wages & benefits	183,072	183,072	366,144	346,584
Payroll taxes	9,506	9,505	19,011	18,222
Depreciation	28,502	131,541	160,043	167,760
Utilities	31,231	134,264	165,495	103,783
Maintenance materials & contractual services	137,490	160,328	297,818	123,698
Insurance	11,240	11,240	22,480	10,082
Office expense	24,519	24,519	49,038	39,090
Lab fees	-	50,719	50,719	30,300
Bad debts	4,572	4,572	9,144	7,424
Professional fees	6,233	6,233	12,466	16,302
Other expense	12,600	12,599	25,199	10,103
Total operating expenses	<u>1,021,026</u>	<u>728,592</u>	<u>1,749,618</u>	<u>1,465,415</u>
<b>OPERATING INCOME (LOSS)</b>	75,911	(78,134)	(2,223)	268,268
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest income	6,143	6,143	12,286	5,223
Interest expense	(111,254)	(111,254)	(222,508)	(213,794)
Sales tax	247,410	247,410	494,820	437,008
Gain(Loss) on disposal of assets	-	-	-	5,580
Non-operating revenues (expenses)	<u>142,299</u>	<u>142,299</u>	<u>284,598</u>	<u>234,017</u>
<b>CHANGE IN NET POSITION</b>	218,210	64,165	282,375	502,285
<b>NET POSITION AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	<u>1,245,734</u>	<u>3,210,194</u>	<u>4,455,928</u>	<u>3,554,369</u>
<b>RESTATEMENT ADJUSTMENT</b>				399,274
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED</b>	<u>1,245,734</u>	<u>3,210,194</u>	<u>4,455,928</u>	<u>3,953,643</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 1,463,944</u>	<u>\$ 3,274,359</u>	<u>\$ 4,738,303</u>	<u>\$ 4,455,928</u>

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

**Walnut Ridge Water and Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2023 and 2022**

	2023	2022
<b>Cash flows from operating activities:</b>		
Cash receipts from customers	\$ 1,765,071	\$ 1,712,753
Cash payments to suppliers for goods and services	(1,245,259)	(935,998)
Cash payments to employees	(385,155)	(364,805)
Net cash provided by (used in) operating activities	134,657	411,950
<b>Cash flows from capital and related financing activities:</b>		
Principal payments on long-term debt	(154,065)	(149,715)
Interest payments on long-term debt	(210,955)	(213,868)
Proceeds from sale of capital assets	-	4,900
Sales tax income	494,820	437,008
Purchases of capital assets	(1,050,156)	(3,330,612)
Net cash provided by (used in) financing activities	(920,356)	(3,252,287)
<b>Cash flows from investing activities:</b>		
Interest received	12,014	8,244
Net cash provided by (used in) investing activities	12,014	8,244
<b>Cash flows from non-capital financing activities:</b>		
Customer meter deposits (net)	7,383	5,971
Net cash provided by (used in) non-capital financing activities	7,383	5,971
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(766,302)	(2,826,122)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	3,188,112	6,014,234
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,421,810	\$ 3,188,112
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (2,223)	\$ 268,268
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	160,043	167,760
(Increase)/Decrease In:		
Customer accounts receivable	17,674	(20,930)
Materials inventory	(5,776)	5,778
Prepaid expenses	(14,688)	(5,048)
Increase/(Decrease) In:		
Accounts payable	(13,635)	(9,042)
Sales tax payable	289	579
Accrued and withheld payroll taxes	(2,152)	(329)
Accrued wages	2,132	-
Accrued retirement	4,754	(594)
Accrued compensated absences	(2,257)	1,915
Due to other governments	(9,504)	3,592
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	\$ 134,657	\$ 411,950

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

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Organization**

The Walnut Ridge Water & Sewer Works (the Department) is a component unit of the City of Walnut Ridge, Arkansas. These financial statements present the financial position, results of operations and cash flows of the Department and are not intended to present that of the City of Walnut Ridge or any of its other activities.

The Department provides water and wastewater treatment services to its citizens from a system owned distribution network. All activities of the Department are considered business type activities. The accounts of the Walnut Ridge Water & Sewer Works are organized on the basis of a proprietary fund type specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for the activities (i) that are financed with debt that is secured solely by a pledge of net revenues from fees and charges of the activity; (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded. Enterprise Funds use the accrual basis of accounting to record the flow of all economic resources (measurement focus). This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, revenues are recorded when earned and expenses are recorded when incurred. Net position is segregated into invested in capital assets, restricted, and unrestricted components.

**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 those estimates.

**Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the Department considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Customer Accounts Receivable**

Walnut Ridge Water & Sewer Works uses the direct write-off method for accounting for bad debt. Water charges receivables as shown in the statements of net position are stated at net realizable value. The use of this method is not materially different from the values reported under the allowance method.

**Materials Inventory**

Inventory, consisting of supplies and materials, is stated at the lower of cost or market using the first-in first-out method.

**Restricted assets**

Restricted assets consist of cash and investments used to satisfy debt covenants, meter deposits held in trust, and funds set aside for retirement, and renewal and replacement.

**Capital Assets**

The cost of additions and major replacements of retired units of property are capitalized. Walnut Ridge Water and Sewer Works defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense when incurred.



**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)**

Depreciation of capital assets is charged as an expense against operations. Depreciation rates have been applied on a straight-line basis, with estimated useful lives as follows:

Distribution System	10-50 Years
Buildings	20-30 Years
Equipment	3-7 Years

**Operating Revenues and Expenses**

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Net Position**

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

*Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted for debt service*– This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is Walnut Ridge Water & Sewer's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

*Unrestricted*– This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

**Budgets and Budgetary Accounting**

Prior to the beginning of the new fiscal year, the Board of Commissioners adopt an annual budget for Walnut Ridge Water & Sewer Works. The budget is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and non-operating income and expense items are not considered. All annual appropriations lapse at year-end.

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 2: CAPITAL ASSETS**

As summary of changes in property, plant, and equipment for the years ended June 30, 2023 and 2022 are as follows:

	<b>Balance</b>			<b>Balance</b>
	<b><u>6/30/2022</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>6/30/2023</u></b>
Capital assets not being depreciated:				
Land	\$ 102,978	\$ -	\$ -	\$ 102,978
Construction in process	3,941,314	1,028,321	-	4,969,635
Total capital assets not being depreciated	<u>4,044,292</u>	<u>1,028,321</u>	<u>-</u>	<u>5,072,613</u>
Other capital assets				
Buildings	54,483	-	-	54,483
Distribution system	7,790,524	-	-	7,790,524
Equipment	545,544	21,835	-	567,379
Total other assets at historical cost	<u>8,390,551</u>	<u>21,835</u>	<u>-</u>	<u>8,412,386</u>
Less accumulated depreciation for:				
Buildings	(39,511)	(1,328)	-	(40,839)
Distribution system	(4,799,584)	(128,736)	-	(4,928,320)
Equipment	(412,856)	(29,958)	-	(442,814)
Total accumulated depreciation	<u>(5,251,951)</u>	<u>(160,022)</u>	<u>-</u>	<u>(5,411,973)</u>
Total capital assets, being depreciated, net	<u>3,138,600</u>	<u>(138,187)</u>	<u>-</u>	<u>3,000,413</u>
Total capital assets, net	<u>\$ 7,182,892</u>	<u>\$ 890,134</u>	<u>\$ -</u>	<u>\$ 8,073,026</u>

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 2: CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>6/30/2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2022</u>
Capital assets not being depreciated:				
Land	\$ 102,978	\$ -	\$ -	\$ 102,978
Construction in process	-	3,941,314	-	3,941,314
Total capital assets not being depreciated	<u>102,978</u>	<u>3,941,314</u>	<u>-</u>	<u>4,044,292</u>
Other capital assets				
Buildings	48,074	6,409	-	54,483
Distribution system	7,790,524	-	-	7,790,524
Equipment	<u>551,730</u>	<u>3,108</u>	<u>(9,294)</u>	<u>545,544</u>
Total other assets at historical cost	<u>8,390,328</u>	<u>9,517</u>	<u>(9,294)</u>	<u>8,390,551</u>
Less accumulated depreciation for:				
Buildings	(38,219)	(1,292)	-	(39,511)
Distribution system	(4,669,147)	(130,437)	-	(4,799,584)
Equipment	<u>(386,119)</u>	<u>(36,031)</u>	<u>9,294</u>	<u>(412,856)</u>
Total accumulated depreciation	<u>(5,093,485)</u>	<u>(167,760)</u>	<u>9,294</u>	<u>(5,251,951)</u>
Total capital assets, being depreciated, net	<u>3,296,843</u>	<u>(158,243)</u>	<u>-</u>	<u>3,138,600</u>
Total capital assets, net	<u>\$ 3,399,821</u>	<u>\$ 3,783,071</u>	<u>\$ -</u>	<u>\$ 7,182,892</u>

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 3: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Department monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Department has the following financial assets that could readily be made available within one year of the statement of financial position to fund expenses without limitations:

Financial assets	\$2,692,035
Less those unavailable for general expenditures within one year due to:	
Current portion of long-term debt	158,921
Financial assets available to meet cash needs for general expenditures within one year	\$2,850,956

**NOTE 4: CASH AND CERTIFICATES OF DEPOSIT - RESTRICTED**

Cash and cash equivalents – restricted and certificates of deposit – restricted consist of reserves restricted by long-term debt covenants and customer deposits. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 8).

	2023	2022
Debt service reserves	\$ 414,958	\$ 477,335
Customer deposits	384,302	323,314
Depreciation and replacement	88,473	113,516
Construction Fund	134,595	1,160,837
Bond Fund	616,093	412,948
Retirement	195,064	163,736
	\$ 1,833,485	\$ 2,651,686

**NOTE 5: CUSTODIAL CREDIT RISK OF BANK DEPOSITS AND INVESTMENTS**

Custodial credit risk is the risk that in the event of a bank failure, Walnut Ridge Water & Sewer Works deposits may not be returned to it. Walnut Ridge Water & Sewer Works deposit policy for custodial risk is compliant with bond requirements. At year end June 30, 2023, and 2022, Walnut Ridge Water & Sewer Works had bank deposits in the amount of \$1,689,477 and \$1,641,052, respectively. Due to the dollar amounts of cash deposits and investments, and the limits of the Federal Deposit Insurance Corporation (FDIC), Walnut Ridge Water & Sewer Works was required to secure additional monies by pledging securities held by the pledging financial institution's trust department or agent at year end June 30, 2023. On June 30, 2023, there were pledged securities in the amount of \$2,745,543. There are no unsecured cash deposits as of June 30, 2023.

**NOTE 6: COMPENSATED ABSENCES**

Vested or accumulated vacation, sick leave, and compensatory time are recorded as an expense and liability as the benefits accrue to employees and are included as accrued compensated absences on the statements of net position.

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 7: RETIREMENT PLAN**

The entity provides pension benefits for all of its full-time employees through the Employees Retirement Plan of the City Water Works of Walnut Ridge, Arkansas (the “Plan”). The Plan is a single employer defined contribution plan and is administered by the Walnut Ridge Water & Sewer Works. The Plan is authorized and may be amended by the entity’s City Council.

In a defined contribution plan, the benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate after a one-year exclusionary period. The entity contributes 8% of the employee’s base salary each month. The entity’s contributions for each employee (and interest allocated to the employee’s account) are vested 20% annually for each year of participation. The matching contribution amount accrued for the 12 months ended June 30, 2023, and 2022 was \$15,859 and \$26,717 respectively.

**NOTE 8: BOND REQUIREMENTS - USDA**

Walnut Ridge Water & Sewer Works must maintain certain requirements after receiving bonds from the United States Department of Agriculture (USDA). The bonds require that funds be established as described below.

The USDA issued the 3.25% 92 01 and 92 02 Debt Service Reserve & Short-Lived Asset Reserve in the amount of \$787,388 and \$115,129 on July 30, 2011. Walnut Ridge Water & Sewer Works is required to deposit a sum equal to the installment of the principal and interest due on the next monthly installment payment plus the sum of \$358 into the Debt Reserve Fund.

These funds with deposits in excess of the amounts insured by FDIC must be secured by bonds or other direct or fully guaranteed obligations of the United States of America.

**NOTE 9: BOND REQUIREMENTS – FIRST NATIONAL BANK**

Walnut Ridge Water & Sewer Works must maintain certain requirements after receiving bonds from First National Bank. The bonds require that funds be established as described below.

First National Bank issued 3.00% serial bonds in the amount of \$1,180,000 and variable rate term bonds in the amount of \$4,125,000 on August 13, 2018. Walnut Ridge Water & Sewer Works is required to deposit all tax receipts into a bond fund for the purpose of providing funds for the payment of principal and interest on the bonds as they become due at maturity or at redemption prior to maturity. A Debt Service Reserve Account is required to be established and maintained for the amount equal to one-half of the maximum annual principal and interest requirement on the Bonds.

The bond is a special obligation payable solely from collections from a 0.375% sales and use tax levied by the City and surplus revenues derived from the City’s water and sewer system.

These funds with deposits in excess of the amounts insured by FDIC must be secured by bonds or other direct or fully guaranteed obligations of the United States of America.

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 10: LONG-TERM DEBT**

	<b>2023</b>	<b>2022</b>
Integrity First Bank, note payable of \$266,008, interest rate of 4.00%; principal and interest payable monthly beginning April 28, 2017; principal & interest payment of \$2,346; matures December 1, 2029	\$ 146,835	\$ 165,873
2012 Debt Reserve Bond issue – USDA, 3.250%, \$823,000; principal and interest payable monthly beginning July 30, 2011; principal & interest payment of \$3,111; matures April 27, 2049	677,753	695,240
2012 Debt Reserve Bond issue - USDA, 3.250% \$120,000; principal and interest payable monthly beginning July 30, 2011; principal & interest payment of \$454; matures April 27, 2049	99,199	101,739
2018 Debt Reserve Bond issue - First National Bank, 3.000%, \$1,180,000 serial bonds, variable rate, \$4,125,000 term bonds; principal and interest payable semiannually beginning June 1, 2019; matures December 1, 2048	4,900,000	5,015,000
	\$ 5,823,787	\$ 5,977,852

All bonds are secured by revenues and water system of Walnut Ridge Water & Sewer Works.

Maturities and analysis of long-term debt changes to Walnut Ridge Water & Sewer Works long-term debt are as follows:

	<b>2023</b>	<b>2022</b>
Total long-term debt at beginning of year	\$ 5,977,852	\$ 6,127,567
Note payable retirements	(154,065)	(149,715)
Total long-term debt at the end of the year, net	5,823,787	5,977,852
Less current portion	(158,921)	(152,548)
Non-current portion	\$ 5,664,866	\$ 5,825,304

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 10: LONG-TERM DEBT (Continued)**

Maturities of long-term debt at June 30, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 158,921	\$ 206,917	\$ 365,838
2025	165,371	201,794	367,165
2026	166,873	196,544	363,417
2027	173,432	191,156	364,588
2028	180,051	185,478	365,529
Thereafter	4,979,139	2,431,993	7,411,132
	<u>\$ 5,823,787</u>	<u>\$ 3,413,882</u>	<u>\$ 9,237,669</u>

Interest expense was \$222,508 for year ended June 30, 2023, and \$213,794 for year ended June 30, 2022.

The Department's outstanding note to Integrity first Bank contains a disclosure stating that the note is in default for failure to make a payment on time or in the amount due, failure to keep the property insured, or failure to pay, or keep any promise, on any debt or agreement. Integrity First Bank has the option to (a) demand immediate payment of all the Department owes under this note, (b) Integrity First Bank may set off this debt against any right the Department has to the payment of money from Integrity First Bank, (c) Integrity First Bank may demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy, and or (d) Integrity First Bank may use any remedy they have under state or Federal law.

By selecting any one or more of these remedies, Integrity First Bank does not give up their right to use later any other remedy. By waiving Integrity First Bank's right to declare an event to be a default, they do not waive their right to consider later the event a default if it continues or happens again.

The Department's outstanding note to United State Department of Agriculture, Rural Economic Development and Community Development (USDA) contains a disclosure stating that upon default of any principal and accrued interest on the bonds or in the performance of any covenant or agreement contained herein or in the instruments incident to making or insuring the loan, the USDA at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Department (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it.

Default under the provisions of this resolution or any instrument incident to the making or insuring the loan may be construed by the USDA to constitute default under any other instrument held by the USDA and execute or assumed by the Department and default under any such instrument may be construed by the USDA to constitute default hereunder.

**NOTE 11: RISK MANAGEMENT AND LITIGATION**

Walnut Ridge Water & Sewer Works is exposed to various risks of loss to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Expenditures and claims are recognized when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

**NOTE 12: MONTHLY WATER RATES**

Walnut Ridge Water & Sewer Works shall be determined by meter measurements. The consumption per month will be charged \$6.15/1,000 gallons of water with a 1,000-gallon minimum per the rate increase in February 2018. Sewer charges are \$4.40/1,000 gallons with a 1,000-gallon minimum per the rate increase in November 2016.

**Walnut Ridge Water & Sewer Works**  
**(A Component Unit of the City of Walnut Ridge, Arkansas)**  
**Notes to Financial Statements**  
**June 30, 2023 and 2022**

**NOTE 13: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 15, 2023, the date on which the financial statements were available to be issued.

**NOTE 14: RESTATEMENT ADJUSTMENT**

During the year ended June 30, 2023, a 2018 bond issuance from First National Bank was discovered that was not included in previous audits. An adjustment was made to beginning balances for the year June 30, 2022 to increase cash and cash equivalents – restricted by \$4,904,054, increase construction in progress by \$620,220, increase total long-term debt by \$5,125,000, and increase net position by \$399,274.





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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 Commissioners  
Walnut Ridge Water & Sewer Works  
Walnut Ridge, Arkansas

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 business-type activities of the Walnut Ridge Water & Sewer Works, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Walnut Ridge Water & Sewer Works' basic financial statements and have issued our report thereon dated October 15, 2023.

### Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Walnut Ridge Water & Sewer Works as of and for the year ended 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Walnut Ridge Water & Sewer Works' 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 Walnut Ridge Water & Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of Walnut Ridge Water & Sewer Works' 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. However, as discussed below, we did identify a certain deficiency in internal control described below, that we consider to be a material weakness.

2023-1 To ensure proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. Walnut Ridge Water & Sewer Works' management did not segregate these duties to sufficiently reduce the risks of fraud and error and properly safeguard assets, because of limited resources. We recommend the financial accounting duties be segregated among employees to the extent possible.

Management has responded and indicated that financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions will be segregated to the extent possible with current staffing levels.

### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Walnut Ridge Water & Sewer Works' 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 objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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### **Walnut Ridge Water & Sewer Works' Response to Findings**

Management's response to the findings identified in our audit is described above. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 effective 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.

*Thomas, Speight & Noble, CPAs*

Thomas, Speight & Noble, CPAs

Jonesboro, Arkansas

October 15, 2023