

CITY OF BALD KNOB, ARKANSAS  
WATER AND SEWER DEPARTMENT

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Bald Knob, Arkansas

**Report on the Financial Statements**

**Opinion**

We have audited the accompanying financial statements of the Water and Sewer Department of the City of Bald Knob, Arkansas as of and for the year ended December 31, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Sewer Department of the City of Bald Knob, Arkansas, as of December 31, 2023, 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 Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Water and Sewer Department of the City of Bald Knob, Arkansas 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 opinion.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Water and Sewer Department of the City of Bald Knob, Arkansas and do not purport to, and do not present fairly the financial position of the City of Bald Knob, Arkansas, as of December 31, 2023, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**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 Water and Sewer Department of the City of Bald Knob, Arkansas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

**Auditor's 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 the Water and Sewer Department of the City of Bald Knob, Arkansas'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 the Water and Sewer Department of the City of Bald Knob, Arkansas'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 Supplementary Information***

Management has omitted the Management 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 July 22, 2024, on our consideration of Department'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 solely 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 Water and Sewer Department of the City of Bald Knob, Arkansas'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 Water and Sewer Department of the City of Bald Knob, Arkansas's internal control over financial reporting and compliance.

*Turner, Williams and Associates, P.A.*

Turner, Williams and Associates, P.A.

Searcy, Arkansas  
July 22, 2024

BALD KNOB WATER AND SEWER DEPARTMENT  
STATEMENT OF NET POSITION  
DECEMBER 31, 2023

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 239,214
Accounts Receivable	246,779
Inventory	<u>32,673</u>
Total Current Assets	<u>518,666</u>
Property and Equipment:	
Water and Sewer System	11,005,698
Vehicles, Furniture, and Equipment	<u>547,042</u>
	11,552,740
Less: Accumulated Depreciation	<u>(4,067,753)</u>
Property and Equipment, Net	<u>7,484,987</u>
Other Assets	
Cash and Cash Equivalents - Restricted	320,153
Restricted Short Term Investments	<u>98,366</u>
Total Other Assets	<u>418,519</u>
TOTAL ASSETS	<u>\$ 8,422,172</u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts Payable	\$ 144,276
Compensated Absences	9,155
Accrued Interest	15,475
Current Portion of Long-term Debt	<u>54,247</u>
Total Current Liabilities	<u>223,153</u>
Long-Term Debt	
Meter Deposits	66,075
Notes Payable	727,810
Less: Current Portion of Long-term Debt	<u>(54,247)</u>
Total Long-Term Debt	<u>739,638</u>
TOTAL LIABILITIES	<u>962,791</u>
Net Position:	
Net Investment in Capital Assets	6,757,177
Restricted	
Restricted for Debt Service	48,197
Restricted for Capital Improvements	304,247
Unrestricted	<u>349,760</u>
TOTAL NET POSITION	<u>7,459,381</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,422,172</u>

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

BALD KNOB WATER AND SEWER DEPARTMENT  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES

Water Revenue	\$ 1,031,360
Sewer Revenue	245,771
Trash Revenue	386,952
Solid Waste Revenue	53,350
Penalty Revenue	37,899
Other Revenues	<u>7,776</u>
 Total Operating Revenues	 <u>1,763,108</u>

OPERATING EXPENSES

Water and Sanitation Cost	958,235
Salaries	296,253
Payroll Taxes	23,595
Health Insurance	19,451
Office Supplies and Expense	18,890
Utilities and Telephone	62,725
Rent	8,815
Professional Fees	17,235
Dues and Subscriptions	20,768
Supplies	30,701
Other	4,447
Licenses and Fees	7,537
Repairs and Maintenance	31,933
Vehicle and Fuel Expense	27,598
Insurance	15,825
Depreciation	<u>205,495</u>
 Total Operating Expenses	 <u>1,749,503</u>
 Operating Income (Loss)	 <u>13,605</u>

NONOPERATING INCOME AND EXPENSE

Interest Income	5,476
Interest Expense	<u>(28,852)</u>
Total Nonoperating Income and Expense	<u>(23,376)</u>

CHANGE IN NET POSITION

\$ (9,771)

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

BALD KNOB WATER AND SEWER DEPARTMENT  
STATEMENT OF CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Restricted</u>	<u>Net Investment in Capital Assets</u>	<u>Unrestricted</u>	<u>Total</u>
Balance, December 31, 2022	\$ 314,863	\$ 6,903,423	\$ 241,095	\$ 7,459,381
Capital contributed by City	-	-	9,771	9,771
Change	<u>37,581</u>	<u>(146,246)</u>	<u>98,894</u>	<u>(9,771)</u>
Balance, December 31, 2023	<u>\$ 352,444</u>	<u>\$ 6,757,177</u>	<u>\$ 349,760</u>	<u>\$ 7,459,381</u>

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

BALD KNOB WATER AND SEWER DEPARTMENT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from water, sewer, and garbage revenue	\$ 1,700,827
Cash payments for water and sanitation cost	(963,668)
Cash payments for salaries	(296,253)
Cash payments for other operating expenses	<u>(329,734)</u>
Net Cash Provided by Operating Activities	<u>111,172</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on capital debt	(52,211)
Interest paid on capital debt	<u>(28,853)</u>
Net Cash Used In Capital and Related Financing Activities	<u>(81,064)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of capital assets	(7,038)
Contributed capital by city	9,771
Interest income	<u>5,476</u>
Net Cash Provided by Investing Activities	<u>8,209</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,317
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>200,897</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 239,214</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME	\$ 13,605
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	205,495
CHANGE IN ASSETS AND LIABILITIES WHICH (USED) PROVIDED CASH	
Accounts receivable	(60,946)
Inventory	(2,109)
Restricted assets	(36,245)
Accounts payable and accrued expenses	(5,433)
Interest payable	(1,860)
Meter deposits	<u>(1,335)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 111,172</u>

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



CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The City of Bald Knob, Arkansas Water and Sewer Department (Department) is a component unit of the City of Bald Knob, Arkansas (City) which was established as an enterprise fund of the City to provide water and sewer services to residents of the City. These financial statements are intended to present the financial position, results of operations and cash flows of only that portion of the funds and account groups of the City that are attributable to transactions of the Water and Sewer Department.

Basis of accounting

The financial statements of the Department are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

The principal operating revenues of the Department are charges for water and sewer service. 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 this definition are reported as nonoperating revenues and expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Department's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and cash equivalents

Cash and cash equivalents include all short term highly liquid investments with original maturities of three months or less which are readily convertible to cash.

CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023

Concentration of custodial risk

The Department had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial risk is the risk that in the event of a bank failure, the Department's deposits may not be returned to the system. As of December 31, 2023, the total uninsured balance was \$48,456.

Accounts receivable

Accounts receivables include amounts due from residents for water and sewer services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. As of December 31, 2023 management believes all accounts to be collectible, therefore, no allowance for doubtful accounts is necessary. Sales of water and sewer services are made on an open account to customers located in Bald Knob, Arkansas, and are collateralized to the extent of each customer's meter deposit.

Revenues for water and sewer services are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Department's financial statements include an estimate of charges for services provided but unbilled at year end. This unbilled receivable is included in accounts receivable in the amount of \$79,182 at December 31, 2023.

Inventories

A portion of the materials and supplies inventories are reported at the lower of cost or market, determined by using the first-in, first-out method. The remaining inventory is carried at market value as of December 31, 2018 as management believes this valuation is closer to lower of cost or market as original cost of some items could not be determined.

Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives for assets are summarized as follows:

Water and sewer system	5 - 50 years
Equipment	5 - 10 years

Major improvements to property and equipment accounts are capitalized. Expenditures for property maintenance and repairs are charged to operations as incurred. Property and equipment are carried at historical cost, or estimated historical cost if actual is unavailable, unless otherwise noted.

Long-Term Debt

All long-term debt to be repaid from business-type resources are reported as liabilities in the financial statements. The long-term debt consists primarily of bonds payable.

Sales Taxes

Sales taxes charged to the Department's customers are recorded as accounts receivable and sales tax payable when charged to customer. When these amounts are remitted to the appropriate taxing authority, the sales tax payable is reduced. When the customer pays the bill the accounts receivable is reduced.

CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023

Net Position

GASB requires the classification of net position into three classifications defined as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by outstanding balances of any bonds or other borrowings that is attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of amounts which have external constraints placed on the use imposed by external groups such as creditors, grantors, contributors, or laws and regulations of other governments or by law through constitutional provision or enabling legislation.

Unrestricted – This component consists of all other fund equity balances that do not meet the definition of “restricted” or “net investment in capital assets”.

Revenue Recognition

Revenues for water, sewer, and trash services are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Department's financial statements include an estimate of charges for services provided but unbilled at year end.

Income Taxes

The department is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated all tax positions and determined that the Department does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The Department does not file federal income tax returns.

Fair Value of Financial Instruments

The estimated fair values of the Department's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. Short term investments are made up solely of certificates of deposit.

Subsequent Events

Management has evaluated subsequent events through July 22, 2024, the date which the financial statements were available to be issued.

2) DEPOSITS AND RESTRICTED ASSETS

The Department had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial credit risk is the risk that in the event of bank failure, the Department's deposits may not be returned to the Department. The Department's deposit policy for custodial credit risk requires compliance with the provisions of the state law. State law requires collateralization of all deposits with federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas.

As of December 31, 2023, cash balances exceed the FDIC coverage and collateral was pledged to the Department. Financial instruments that could potentially subject the Department to a risk of accounting loss consist of restricted and unrestricted Cash and Cash Equivalents and Certificates of Deposit. The table presented below is designed to disclose the level of custody credit risk assumed

CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2023

by the Department based upon how its deposits were insured or secured with collateral. The categories of credit risk are defined as follows:

Category 1- Insured by FDIC or collateralized with securities held by the Department or by its agents in its name.

Category 2- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution's trust or agent in the Department's name.

Category 3- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust or agent but not in the Department's name; or collateralized with no written or approved collateralized agreement.

	<u>2023</u>
Category 1	\$ 547,449
Category 2	51,758
Category 3	<u>48,456</u>
Total	<u>\$ 647,663</u>

The Department maintains funds that are restricted as to their use. Restricted assets at year-end were made up of the following accounts:

Bond payment account	\$ 48,197
Depreciation reserve	304,247
Meter deposits	<u>66,075</u>
Restricted assets total	<u>\$ 418,519</u>

3) PROPERTY AND EQUIPMENT

Activity for the Department for the year ended December 31, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, being depreciated:				
Equipment & vehicles	\$ 544,021	\$ 3,021	\$ -	\$ 547,042
Water and sewer system	<u>11,001,681</u>	<u>4,017</u>	<u>-</u>	<u>11,005,698</u>
Totals, capital assets being depreciated	11,545,702	7,038	-	11,552,740
Less accumulated depreciation for:				
Capital assets	<u>(3,862,258)</u>	<u>(205,495)</u>	<u>-</u>	<u>(4,067,753)</u>
Total capital assets, net	<u>\$ 7,683,444</u>	<u>\$ (198,457)</u>	<u>\$ -</u>	<u>7,484,987</u>

4) DEBT

Notes payable as of year end consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
ANRC – 2015 bond issuance	<u>780,021</u>	-	<u>(52,211)</u>	<u>727,810</u>	<u>54,247</u>
Total debt	780,021	-	(52,211)	727,810	
less current portion				<u>(54,247)</u>	
Total long-term debt				<u>\$ 673,563</u>	

**CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

Future maturities of notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	54,247	28,385	82,632
2025	56,363	26,269	82,632
2026	58,561	24,071	82,632
2027	60,845	21,787	82,632
2028	63,218	19,414	82,632
2029 - 2033	355,054	58,107	413,161
2034 - 2038	<u>79,522</u>	<u>3,101</u>	<u>82,623</u>
Total	<u>\$ 727,810</u>	<u>\$ 181,134</u>	<u>\$908,944</u>

The ANRC – 2015 bond issuance is payable in annual installments of \$82,632, including interest at 3.9% per annum. It is secured by the assets of the system and matures June 2034.

**5) COMPENSATED ABSENCES**

The employees of the Department are entitled to paid vacation and sick days depending on length of service. The Utility's policy is to recognize the costs of vacation and sick days as they are earned. Accrued but unused vacation was \$9,155 for the year ended December 31, 2023.

**6) CONCENTRATIONS**

The Department's business activities are concentrated with customers located in and near the City of Bald Knob, Arkansas. All the future revenue is associated within the above-mentioned geographic region.

The Department extends credit to its customers in the normal course of business. Concentrations of credit risk with respect to accounts receivable are limited due to the number of customers and the relatively small individual account balances. Further, the Department requires the customers to pay a deposit for their water meter, which may be used to offset any outstanding account balance when the customer leaves the system.

The Department purchases all its water from one single supplier, Northeast White County Water. Purchases from this supplier were \$555,526 for the year ended December 31, 2023.

**7) CONTRIBUTED CAPITAL BY CITY**

The American Rescue Plan Act (ARPA) was signed into law March 2021 and in part provides aid for state and local governments for approved purposes. The Department received \$9,771 of ARPA funds from the city and those were used for their intended purpose of improving the water and sewer system in 2023. The contributed capital was recorded as an increase to unrestricted net assets during 2023.

**8) ADOPTION OF NEW ACCOUNTING STANDARD**

On January 1, 2022, the Department adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Department did not have any leases subject to the new standards and therefore, there was no impact to net position, revenues, or expenses as a result of applying GASB 87 for

CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023

the year ended December 31, 2023, and there have been no significant changes to the Department's business processes, systems, or internal controls as a result of implementing the standard.

9) FUTURE ACCOUNTING STANDARDS

GASB Statement No. 100 - An Amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for periods beginning after June 15, 2023, with earlier application encouraged.

## SUPPLEMENTARY INFORMATION

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

To the City Council  
City of Bald Knob, 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 Water and Sewer Department of the City of Bald Knob, Arkansas, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Water and Sewer Department of the City of Bald Knob, Arkansas's basic financial statements and have issued our report thereon dated July 22, 2024.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Water and Sewer Department of the City of Bald Knob, Arkansas'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 Water and Sewer Department of the City of Bald Knob, Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of Water and Sewer Department of the City of Bald Knob, Arkansas'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 have not been identified. Given these 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 responses as items 2023-1 and 2023-2 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Water and Sewer Department of the City of Bald Knob, Arkansas'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*.



## Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Department'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 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.

*Turner, Williams and Associates, P.A.*

Turner, Williams & Associates, P.A.

Searcy, Arkansas

July 22, 2024

CITY OF BALD KNOB, ARKANSAS WATER AND SEWER DEPARTMENT  
Schedule of Audit Findings and Responses  
December 31, 2023

FINDING 2023-1:

Internal controls over the valuation of the inventory have not been properly executed. Due to the lack of proper record keeping of invoices for inventory purchases, inventory was valued at its 2018 market value instead of cost for most of the inventory valuation. Inventory is counted at year end. Procedures have been added to track inventory purchases and use of inventory through work orders during part of the current year; however, the changes have not been traced to the general ledger and valuation of inventory items. A finding regarding inventory valuation was also noted in the 2017, 2018, 2019, 2020, 2021 and 2022 audit.

RESPONSE:

The Bald Knob Water & Sewer Department response to the finding identified above: The Department will implement inventory procedures to assist in FIFO valuation.

FINDING 2023-2:

Numerous adjusting entries were required during the 2023 audit in order to present the Department's financial statements in accordance with generally accepted accounting principles (GAAP). The Department does not have a process in place to ensure accounting records are in accordance with GAAP. This caused many accounts within the Department's financial statements to be misstated. We recommend the Department establish a formal closing checklist (monthly and annually) to document entries, reversing entries, and reconciliations that should be performed. In addition, at the completion of the audit, all required entries should be posted to the accounting software to ensure the Department's final trial balance agrees to the audited trial balance.

RESPONSE:

Management will establish and implement a closing checklist for the monthly and annual closing processes to ensure the books are closed properly.