

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

DECEMBER 31, 2022 AND 2021

CONTENTS

	<u>Page No</u>
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1 - 3
Management's Discussion and Analysis	4 - 5
Basic Financial Statements:	
Statements of Net Position - Proprietary Funds	6
Statements of Revenues, Expenses, and Changes in Net Position - Proprietary Funds.....	7
Statements of Cash Flows - Proprietary Funds	8 - 9
Notes to Financial Statements	10 - 20
<u>NON-FINANCIAL SECTION</u>	
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 <i>Government Auditing Standards</i>	21 - 22
<u>SUPPLEMENTAL INFORMATION</u>	
Revenues, Expenses, and Changes in Net Position - Budgetary Comparison	23 - 24

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lake Conway Community Waste Water Utility
Mayflower, Arkansas

Opinions

We have audited the accompanying financial statements of the business-type activities of the Lake Conway Community Waste Water Utility, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Board's 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 the business-type activities of the Lake Conway Community Waste Water Utility, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 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 Lake Conway Community Waste Water Utility 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 Lake Conway Community Waste Water Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- 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 Lake Conway Community Waste Water Utility'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 Lake Conway Community Waste Water Utility'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.

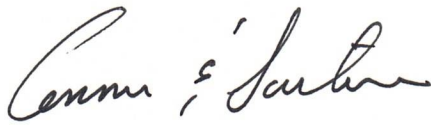
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 5 and 23 - 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2023 on our consideration of the Lake Conway Community Waste Water Utility'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 the Lake Conway Community Waste Water Utility'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 Lake Conway Community Waste Water Utility's internal control over financial reporting and compliance.



Conway, Arkansas
February 13, 2023

**Lake Conway Community Waste Water Utility
P.O. Box 198
Mayflower, Arkansas 72106**

Management's Discussion and Analysis

The Lake Conway Community Waste Water Utility's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the Board's financial activity, (c) identify changes in the Board's financial position (its ability to address the next and subsequent years' challenges), (d) identify any material deviations from the financial plan (approved budget), and (e) identify individual fund issues or concerns.

Overview of the Financial Statements

The financial statements report information about the Board using accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the Board's overall financial status. The basic financial statements are comprised of only two components: 1) enterprise or proprietary fund financial statements and 2) notes to the financial statements.

The Statements of Net Position present information comprising all of the Board's assets and liabilities with the difference being the fund balances, reported as net position. The Statements of Net Position provide a way to measure the financial health of the Board by providing a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the entity.

The Statements of Revenues, Expenses, and Changes in Net Position report information regarding the change in net position during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of the cash flows.

The Statements of Cash Flows report cash receipts and expenditures that result from operating, investing and financing activities. The Statements of Cash Flows explain how cash is managed, received and used.

The notes to the financial statements are essential to developing a full understanding of the data provided in the financial statements.

Financial Analysis of the Board

The assets of the Board exceeded its liabilities as of December 31, 2022 by \$2,434,906 (net position). Of this amount, \$35,860 (unrestricted fund balance) may be used to meet the system's ongoing obligations to customers and creditors.

The majority of the Board's net position, representing 94.3%, reflects the investment in capital assets, net of related debt for contributed assets. These assets comprise the sewer system and are utilized in providing services to customers. Deferred debt will be repaid with resources provided by the system's customers through rates and fees.

Total assets amounted to \$2,664,225 consisting primarily of capital assets in the amount of \$2,522,933. Total assets decreased during 2022 by \$62,632, primarily as the result of depreciation charged to assets.

Lake Conway Community Waste Water Utility
Management's Discussion and Analysis (Continued)

Financial Analysis of the Board (Continued)

Total liabilities amounted to \$229,319 consisting of long-term liabilities in the amount of \$214,089. The Board's total debt decreased \$13,144 during 2022.

Total net position amounted to \$2,434,906 consisting of net assets invested in capital assets, net of related debt that amounted to \$2,295,594, debt service restricted net assets amounting to \$19,521, capital depreciation reserve restricted net assets amounting to \$83,931, and unrestricted net assets amounting to \$35,860. There was an increase in restricted assets during the year of \$6,225 resulting from contributions made for capital reserves. An increase in unrestricted net assets was present amounting to \$3,598, while a decrease in invested net assets was present amounting to \$59,311. Overall, total net position for The Board decreased \$49,488 during 2022.

The Board's total revenues were \$188,047 which was an increase of \$6,221 or 3.42% increase from the prior year. Operating expenses amounted to \$226,021 which was an increase of \$5,982 or 2.72% from the prior year. Total non-operating revenues and expenses amounted to a net expense in the amount of \$11,514, consisting of interest expense in the amount of \$11,739. Interest paid during the prior year was \$12,320. The net of non-operating revenues and expenses decreased by \$820 or a 6.65% decrease from the prior year. The overall change in net position for the year was a decrease of \$49,488 or 1.99% decrease from the prior year. This results in an ending net position of \$2,434,906.

No additional provision for uncollectible accounts was made during the year.

Budget Analysis and Variances

The Board's budget for 2022 consisted of budgeted total revenues in the amount of \$183,000. Actual results were higher than the budgeted amount by \$5,047. Actual operating expenses were \$1,847 higher than budgeted expenses of \$224,174, including depreciation expense. Overall, actual results were under budget for 2022 by \$11,889.

Economic Factors

The development and construction of the sewer system for the service area has been in progress over a period of years. The Board imposes fee assessments in compliance with ordinances requiring residents meeting requirements to be connected to the public sewer system. The Board believes that all customers have been identified and billings have been properly established. The Board monitors billings assessed under a contracted third-party arrangement with the City of Mayflower, Arkansas.

Requests for Information

This financial report is designed to provide a general overview of the Lake Conway Community Waste Water Utility's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to:

Lake Conway Community Waste Water Utility
P.O. Box 198
Mayflower, Arkansas 72106

BASIC FINANCIAL STATEMENTS

LAKE CONWAY COMMUNITY WASTE WATER UTILITY
STATEMENTS OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2022 AND 2021

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2022</u>	<u>2021</u>
Assets:		
Current Assets:		
Cash and investments	\$ 11,451	\$ 8,328
Accounts receivable	39,002	39,049
Allowance for doubtful accounts	(12,613)	(12,613)
Total Current Assets	<u>37,840</u>	<u>34,764</u>
Non-current Assets:		
Restricted Assets:		
Cash and investments	103,452	97,227
Total Restricted Assets	<u>103,452</u>	<u>97,227</u>
Capital Assets:		
Sewer system	3,369,413	3,369,413
Buildings	53,096	53,096
Land	92,700	92,700
Less: Accumulated depreciation	(992,276)	(920,343)
Total Capital Assets, (net of accumulated depreciation)	<u>2,522,933</u>	<u>2,594,866</u>
Total Non-Current Assets	<u>2,626,385</u>	<u>2,692,093</u>
Total Assets	<u>\$ 2,664,225</u>	<u>\$ 2,726,857</u>
Liabilities:		
Current Liabilities:		
Current portion of long term debt	\$ 13,250	\$ 12,622
Accounts payable	990	1,529
Accrued interest	990	973
Total Current Liabilities	<u>15,230</u>	<u>15,124</u>
Non-current Liabilities:		
Revenue bond payable	165,546	174,027
Deferred loans payable	61,793	65,934
Current portion of long term debt	(13,250)	(12,622)
Total Non-current Liabilities	<u>214,089</u>	<u>227,339</u>
Total Liabilities	<u>229,319</u>	<u>242,463</u>
Net Position:		
Investment in capital assets, net of related debt	2,295,594	2,354,905
Restricted Fund Balance:		
Debt service	19,521	19,296
Capital depreciation reserve	83,931	77,931
Unrestricted fund balance	<u>35,860</u>	<u>32,262</u>
Total Net Position	<u>\$ 2,434,906</u>	<u>\$ 2,484,394</u>

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

LAKE CONWAY COMMUNITY WASTE WATER UTILITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS

YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2022</u>	<u>2021</u>
Operating Revenues:		
Charges for services	\$ 188,047	\$ 182,110
Refunds	-	(284)
Total Operating Revenues	<u>188,047</u>	<u>181,826</u>
Operating Expenses:		
Facilities and contract services	78,061	69,896
Operations and maintenance	39,348	40,776
Utilities	13,461	12,159
Insurance	3,132	3,845
Billings and collections	9,002	8,904
Office supplies and postage	399	569
Operations supplies	3,796	5,022
Legal and audit	4,827	5,000
Bad debt expense	-	-
Licenses and permits	2,062	1,162
Depreciation expense	71,933	72,706
Total Operating Expenses	<u>226,021</u>	<u>220,039</u>
Operating Income (Loss)	<u>(37,974)</u>	<u>(38,213)</u>
Non-Operating Revenues (Expenses):		
Reimbursement	-	-
Interest income	225	3
Interest expenses and fiscal charges	(11,739)	(12,337)
Total Non-Operating Revenues (Expenses)	<u>(11,514)</u>	<u>(12,334)</u>
Change in Net Position	(49,488)	(50,547)
Net Position - Beginning of Year	<u>2,484,394</u>	<u>2,534,941</u>
Net Position - End of Year	<u><u>\$ 2,434,906</u></u>	<u><u>\$ 2,484,394</u></u>

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

LAKE CONWAY COMMUNITY WASTE WATER UTILITY
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Receipts from customers and users	\$ 188,094	\$ 179,904
Payments to suppliers	<u>(154,610)</u>	<u>(148,951)</u>
Net Cash Provided (Used) by Operating Activities	<u>33,484</u>	<u>30,953</u>
Cash Flows from Capital and Related Financial Activities:		
Principal paid on capital debt	(12,622)	(12,025)
Reimbursements	-	-
Interest paid on capital debt	<u>(11,739)</u>	<u>(12,337)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(24,361)</u>	<u>(24,362)</u>
Cash Flows from Investing Activities:		
Interest income	225	3
Decrease (increase) in reserve funds	<u>(6,225)</u>	<u>(12,978)</u>
Net Cash Provided (Used) by Investing Activities	<u>(6,000)</u>	<u>(12,975)</u>
Net Increase in Cash and Cash Equivalents	3,123	(6,384)
Cash and cash equivalents - Beginning of Year	<u>8,328</u>	<u>14,712</u>
Cash and cash equivalents - End of Year	<u><u>\$ 11,451</u></u>	<u><u>\$ 8,328</u></u>

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

LAKE CONWAY COMMUNITY WASTE WATER UTILITY
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>BUSINESS-TYPE ACTIVITIES</u>	
	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	<u>\$ (37,974)</u>	<u>\$ (38,213)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	71,933	72,706
(Increase) decrease in receivables	47	(1,922)
Bad debt expense	-	-
Accounts and other payables	<u>(522)</u>	<u>(1,618)</u>
Total Adjustments	<u>71,458</u>	<u>69,166</u>
Net Cash Provided By Operating Activities	<u><u>\$ 33,484</u></u>	<u><u>\$ 30,953</u></u>

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

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

❖ General Statement

- The Lake Conway Community Waste Water Utility (the Board), a Public Facilities Board, was established by the County of Faulkner, State of Arkansas, by ordinance dated October 19, 2016, and become operational on January 1, 2017. The Board is a spinoff entity of the Faulkner County Water Works and Sewers Public Facilities Board. Substantially, all assets and liabilities of the Faulkner County Water Works and Sewers Public Facilities Board were transferred to the Board upon the first day of operations.

Both Public Facilities Boards continue to operate as an autonomous form of government under a Quorum Court presided by the County Judge and provides services as authorized by its charter consisting of public works and public health and welfare.

The accounting and reporting policies of the Board conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*, and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Board are described below.

A. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position display information about the entity as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities, which for the most part obtain their support from taxes and governmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. The Board does not have any governmental type activities.

Fund Financial Statements

Fund financial statements are designed to present financial information at a more detailed level and typically include statements for governmental, proprietary, and fiduciary funds. The entity currently operates within a single enterprise fund; therefore no governmental or fiduciary funds are being reported. The proprietary fund financial statements report the entire financial activities of the entity, government-wide.

The Board has one enterprise fund which is reported as a proprietary fund as follows:

The *Sewer Fund* accounts for operations of providing waste disposal.

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

B. Government-Wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds are accounted for on a flow of economic resources measurement focus. This means that all assets and liabilities, both current and non-current, and associated with their activity, are included on the balance sheets. Proprietary fund operating statements present increases (revenues and gains) and decreases (expenses and losses) in net position. Proprietary funds measurement focus is based upon determination of net income, financial position, and cash flows. The Board applies all applicable GASB pronouncements and adheres to the FASB Standards as codified, unless they conflict with or contradict GASB pronouncements. Operating activities on the income statements represent user fees, and payments to vendors and employees who provide services. All revenues and expenditures not meeting this definition are included under capital, non-capital, or investing activities. There is one type of fund in this category, *Enterprise Funds*.

The Board's one *Enterprise Fund* accounts for the utility and operations, which are self-supported through user charges. The utilities are financed and operated like a private business enterprise which requires periodic determination of revenues earned, expenses incurred, and net income for capital maintenance, public policy, management, control and accountability. The enterprise fund, as previously described, is the Sewer Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement Focus

Government-Wide Financial Statements - Government-wide financial statements are prepared using an economic resources measurement focus. All assets and liabilities associated with the operation of an entity are included on the Statement of Net Position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in net position reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better the relationship between the government-wide statements and statements for governmental funds.

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Measurement Focus (Continued)

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (i.e. revenues) and decreases (i.e. expenses) in net position. The Statement of Cash Flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are reported using the economic resources measurement focus.

Basis of Accounting

Basis of Accounting refers to the recognition of revenues and expenditures or expenses in the accounts and the reporting of them in the financial statements. Basis is related to the timing of the measurements made, regardless of the measurement focus applied.

Governmental fund financial statements report current financial resources using the *modified accrual basis of accounting*. The modified accrual basis of accounting recognizes resources when they are considered measurable and available. This means: 1) the amount of the transaction can be determined; and 2) the resource is deemed to be collectible within the current period or soon enough thereafter to pay current liabilities. Under the modified accrual basis, expenditures are recorded when the fund liability is incurred. The exception to this is for principal and interest on general long-term debt and vacation and sick pay, which are recorded when paid.

Proprietary Funds use the *accrual basis of accounting*. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred. All assets and liabilities are recorded in the fund.

D. Budgetary Control

The Board follows procedural controls in establishing the budgetary data reflected in the financial statements. The budget is legally enacted through majority vote of the Board and approved by the Quorum Court.

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Assets, Liabilities, and Net Position

1. Cash and Investments

The Board considers all highly liquid investments stemming from unrestricted cash with a maturity of one year or less to be cash. Investments are valued at cost, adjusted for amortization of premium and discounts.

2. Receivables

Receivables consist of sewer charges collected under a billing service arrangement with a third party agency. Sewer charges are assessed along with the water billings of the agency. Procedures for service denial for delinquent accounts follow the agency's shut-off policy. A provision for uncollectible accounts has been established by the Board, based on the recent availability of collection data. The amount of bad debts expensed for 2022 and 2021 was \$0.

3. Capital Assets

The Board defines a capital asset as tangible property with an initial, individual cost of \$1,000 or greater and an estimated life in excess of three years. Capital assets include property, equipment, and infrastructure. In the fund financial statements, these assets are accounted for and reported based on the measurement focus of the fund. In other words, in the governmental funds, acquired capital assets are accounted for as expenditures when the asset is purchased. In the proprietary funds, the expense is capitalized and the current year's depreciation is reported as the expense.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year.

Donated assets are valued at estimated fair market value at the time of acquisition. Where historical cost is not known, assets are recorded at estimated historical costs. Improvements are capitalized but the costs of normal maintenance and repairs, not adding to the value of the asset or materially extending an asset's life, are not.

Property, plant, and equipment of the Board is depreciated using the straight-line method and reported in the proprietary fund financial statements using the following estimated useful lives:

	<u>Estimated Useful Life in years</u>
Water and Sewer distribution	40 - 50
Improvements	10 - 50

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Assets, Liabilities, and Net Position (Continued)

4. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements and on the proprietary fund financial statements.

5. Nature and Purpose of Reservations and Designations of Fund Balances

- a. Restricted Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes.
- b. Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

6. Net Position

Net position represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Fund balances are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

7. Use of Estimates

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

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED):

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheet, as well as, the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include common stock, mutual funds, and United States Treasury obligations. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. The Board did not hold any Level 2 or Level 3 securities as of December 31, 2022 and 2021.

The following table presents the fair value measurement of assets and liabilities recognized in the accompanying Statements of Net Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurement is valued at December 31, 2022 and 2021.

	<u>December 31, 2022</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury Reserves	<u>\$ 19,521</u>	<u>\$ 19,521</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets at Fair Value	<u>\$ 19,521</u>	<u>\$ 19,521</u>	<u>\$ -</u>	<u>\$ -</u>

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED):

	<u>December 31, 2022</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury Reserves	<u>\$ 19,521</u>	<u>\$ 19,521</u>	<u>\$ -</u>	<u>\$ -</u>
Total Assets at Fair Value	<u>\$ 19,521</u>	<u>\$ 19,521</u>	<u>\$ -</u>	<u>\$ -</u>

Other Financial Instruments

The following methods and assumptions were used in estimating fair value disclosures for financial instruments:

Cash, cash equivalents, short-term investments, and promises to give due in less than one year: The carrying amounts reported in the Statement of Net Position approximate fair values because of the short maturities of those instruments.

Long-term investments: The fair values of long-term investments are based on quoted market prices for those or similar investments.

Long-term debt: The fair value of the notes and bonds payable is based on its carrying amount.

Deposits

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Arkansas and its agencies that have a market value of no less than the principal amount of the deposits. The Board's deposits were fully insured or collateralized as required by the state statutes as of December 31, 2022 and 2021. The carrying amount of the deposits and the respective bank balances at December 31, 2022 and 2021 were \$95,904 and \$86,626. There were no uncollateralized balances at year end.

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 3 - CHANGES IN PROPERTY, PLANT, AND EQUIPMENT:

All reported capital assets of the Board are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

	Balance December 31, 2021	Increases	Decreases	Balance December 31, 2022
Capital assets, not being depreciated:				
Land	\$ 92,700	\$ -	\$ -	\$ 92,700
Capital assets, being depreciated:				
Sewer system & improvements	3,369,413	-	-	3,369,413
Buildings	53,096	-	-	53,096
Total Capital Assets, being Depreciated	3,422,509	-	-	3,422,509
Less accumulated depreciation for:				
Sewer system & improvements	(886,635)	(68,352)	-	(954,987)
Buildings	(33,708)	(3,581)	-	(37,289)
Total accumulated depreciation	(920,343)	(71,933)	-	(992,276)
 Total Capital Assets, being Depreciated, Net	 2,502,166	 (71,933)	 -	 2,430,233
 Total Capital Assets, Net	 \$ 2,594,866	 \$ (71,933)	 \$ -	 \$ 2,522,933

Depreciation expense charged to functions/programs of the business-type activities was \$71,933 for 2022 and \$72,706 for 2021.

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4 - LONG-TERM DEBT:

	<u>Balance</u> <u>12/31/2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2022</u>	<u>Due Within</u> <u>One Year</u>
2009 Wastewater Refunding Revenue Bond, dated April 30, 2009, due in semi-annual installments through June 1, 2036, having an approximate yield of 4.9%. Semi-annual payment amount \$8,453.	\$ 174,027	\$ -	\$ 8,481	\$ 165,546	\$ 8,902
Arkansas Natural Resources Commission 10 year, 5% deferred loan #00348-WSSW-D, dated July 1, 2004, matures December 1, 2033. Annual payments of \$7,438 due each December 1, until maturity.	<u>65,934</u>	<u>-</u>	<u>4,141</u>	<u>61,793</u>	<u>4,348</u>
Total Long-Term Debt	<u>\$ 239,961</u>	<u>\$ -</u>	<u>\$ 12,622</u>	<u>\$ 227,339</u>	<u>\$ 13,250</u>

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for the years subsequent to December 31, 2022, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 13,250	\$ 11,094	\$ 24,344
2024	13,909	10,435	24,344
2025	14,601	9,743	24,344
2026	15,326	9,018	24,344
2027	16,089	8,255	24,344
Thereafter	<u>154,164</u>	<u>34,200</u>	<u>188,364</u>
	<u>\$ 227,339</u>	<u>\$ 82,745</u>	<u>\$ 310,084</u>

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 4 - LONG-TERM DEBT (CONTINUED):

Revenue Bonds - The Wastewater Refunding Revenue Bond was issued on April 30, 2009 at \$253,888, bearing a yield rate of 4.9% and maturity date of June 1, 2036. The Revenue Bond constitutes a special obligation of the Board and is collateralized by the revenue of the sewer system and restricted funds as established by the bond ordinances.

Bond ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the restricted bond funds. Remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions which, among other items, restrict the issuance of additional Revenue Bonds unless the restricted funds noted above contain the required amounts and certain financial ratios are met. The Board is in compliance with all significant financial requirements as of December 31, 2022.

During 2019, the Board revised the policy of contributing 5% of gross billings to the depreciation reserve fund on a monthly basis for the replacement of capital assets by increasing the contribution to 7% per month.

Below is a summary of the various restricted asset accounts:

	<u>2022</u>	<u>2021</u>
Revenue Bond	\$ 2,330	\$ 2,105
Debt Service	<u>17,191</u>	<u>17,191</u>
Total Debt Service	19,521	19,296
 Depreciation Reserve	 <u>83,931</u>	 <u>77,931</u>
Total Restricted Cash and Investments	<u>\$ 103,452</u>	<u>\$ 97,227</u>

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2022 AND 2021

NOTE 5 - REGULATORY ENVIRONMENT:

The quality of water emitted from the sewer treatment plant is regulated by the Environmental Protection Agency and the Arkansas Department of Environmental Quality (ADEQ).

NOTE 6 - PROVISION FOR INCOME TAX:

No provision has been made for income taxes. The Lake Conway Community Waste Water Utility is a quasi-governmental entity operating a municipally owned system that is exempt from federal and state income tax.

NOTE 7 - SUBSEQUENT EVENTS:

Subsequent to the year ended December 31, 2022, the Board received notice from the State of Arkansas that the Utility had been approved for American Rescue Plan (ARP) funding in order to make major infrastructure improvements to the Utility's existing plant. The State of Arkansas awarded approximately \$800,000, however the grant included provisions that the grant was to be matched by an equal amount by a May 31, 2023, deadline, for the project funds to be released. On February 21, 2023, the Faulkner County Quorum Court approved the additional matching funds for the project. As part of the agreement with the quorum court, the replacement treatment plant would be incorporated and operated by Conway Corporation, the adjacent municipal utility system for the City of Conway, Arkansas. Upon the project's completion, the Lake Conway Community Waste Water Utility will cease to exist.

No other events occurring subsequent to year end, having a direct and material effect on the financial statements for the year ended December 31, 2022, have been determined as of the date of the audit report.

NON-FINANCIAL SECTION

Conner & Sartain

CERTIFIED PUBLIC ACCOUNTANTS
985 CARSON COVE, SUITE C
P.O. BOX 2260
CONWAY, ARKANSAS 72033
Telephone: (501) 327-6688
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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
Lake Conway Community Waste Water Utility
Mayflower, 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 Lake Conway Community Waste Water Utility (the Board) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated February 13, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lake Conway Community Waste Water Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake Conway Community Waste Water Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake Conway Community Waste Water Utility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

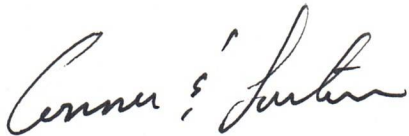
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Conway Community Waste Water Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Conway, Arkansas
February 13, 2023

SUPPLEMENTAL INFORMATION

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

**REVENUES, EXPENSES, AND CHANGES IN NET
POSITION - BUDGETARY COMPARISON**

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2022

	<u>BUDGETED AMOUNTS</u>	<u>ACTUAL AMOUNTS</u>	<u>BUDGET VARIANCE</u>
Operating Revenues:			
Charges for services	\$ 183,000	\$ 188,047	\$ 5,047
Refunds	-	-	-
Total Operating Revenues	<u>183,000</u>	<u>188,047</u>	<u>5,047</u>
Operating Expenses:			
Facilities and contract services	74,074	78,061	(3,987)
Operations and maintenance	39,400	39,348	52
Utilities	14,000	13,461	539
Billings and collections	9,000	9,002	(2)
Office supplies and postage	500	399	101
Operations supplies	5,000	3,796	1,204
Legal and audit	5,000	4,827	173
Licenses and permits	1,200	2,062	(862)
Insurance	4,000	3,132	868
Depreciation expense	72,000	71,933	67
Total Operating Expenses	<u>224,174</u>	<u>226,021</u>	<u>(1,847)</u>
Operating Income (Loss)	<u>(41,174)</u>	<u>(37,974)</u>	<u>3,200</u>
Non-Operating Revenues (Expenses):			
Bad debt expense	-	-	-
Reimbursement	-	-	-
Interest income	-	225	225
Interest expenses and fiscal charges	(20,203)	(11,739)	8,464
Total Non-Operating Revenues (Expenses)	<u>(20,203)</u>	<u>(11,514)</u>	<u>8,689</u>
Change in Net Position	(61,377)	(49,488)	11,889
Net Position - Beginning of Year	<u>(463,280)</u>	<u>2,484,394</u>	<u>2,947,674</u>
Net Position - End of Year	<u>\$ (524,657)</u>	<u>\$ 2,434,906</u>	<u>\$ 2,959,563</u>

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

LAKE CONWAY COMMUNITY WASTE WATER UTILITY

**REVENUES, EXPENSES, AND CHANGES IN NET
POSITION - BUDGETARY COMPARISON**

PROPRIETARY FUNDS

YEAR ENDED DECEMBER 31, 2021

	<u>BUDGETED AMOUNTS</u>	<u>ACTUAL AMOUNTS</u>	<u>BUDGET VARIANCE</u>
Operating Revenues:			
Charges for services	\$ 180,000	\$ 182,110	\$ 2,110
Refunds	-	(284)	(284)
Total Operating Revenues	<u>180,000</u>	<u>181,826</u>	<u>1,826</u>
Operating Expenses:			
Facilities and contract services	73,000	69,896	3,104
Operations and maintenance	38,000	40,776	(2,776)
Utilities	15,000	12,159	2,841
Billings and collections	8,900	8,904	(4)
Office supplies and postage	500	569	(69)
Operations supplies	4,800	5,022	(222)
Legal and audit	5,000	5,000	-
Licenses and permits	1,200	1,162	38
Insurance	3,000	3,845	(845)
Depreciation expense	72,000	72,706	(706)
Total Operating Expenses	<u>221,400</u>	<u>220,039</u>	<u>1,361</u>
Operating Income (Loss)	<u>(41,400)</u>	<u>(38,213)</u>	<u>3,187</u>
Non-Operating Revenues (Expenses):			
Bad debt expense	-	-	-
Reimbursement	-	-	-
Interest income	-	3	3
Interest expenses and fiscal charges	(24,346)	(12,337)	12,009
Total Non-Operating Revenues (Expenses)	<u>(24,346)</u>	<u>(12,334)</u>	<u>12,012</u>
Change in Net Position	(65,746)	(50,547)	15,199
Net Position - Beginning of Year	<u>(397,534)</u>	<u>2,534,941</u>	<u>2,932,475</u>
Net Position - End of Year	<u>\$ (463,280)</u>	<u>\$ 2,484,394</u>	<u>\$ 2,947,674</u>

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