

**CHEROKEE VILLAGE WATERWORKS
FACILITIES BOARD OF SHARP
COUNTY, ARKANSAS**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



CHEROKEE VILLAGE WATERWORKS FACILITIES
BOARD OF SHARP COUNTY, ARKANSAS
DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

To the Board of Directors
Cherokee Village Waterworks Facilities Board of Sharp County, AR
Cherokee Village, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas, as of and for the years December 31, 2022 and 2021, 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 financial position of Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas as of December 31, 2022 and 2021, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cherokee Village Waterworks Facilities Board of Sharp County, 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.

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 Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 financial statements. Such missing information, although not a part of the 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 statement in an appropriate operational, economic, or historical context. Our opinion on the 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 March 20, 2023, on our consideration of Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 the effectiveness of Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 the Board's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fayetteville, Arkansas
March 20, 2023

FINANCIAL STATEMENTS

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 256,436	\$ 270,558
Restricted cash and cash equivalents	1,202,348	665,826
Certificate of deposit	3,850	2,558
Restricted certificate of deposit	502,720	502,720
Investments	-	63,578
Restricted investments	-	375,063
Accounts receivable net of allowance for doubtful accounts	87,088	78,781
Inventory	181,857	164,335
Total Current Assets	2,234,299	2,123,419
Net Capital Assets	3,874,009	3,939,625
Total Assets	6,108,308	6,063,044
Deferred Outflows of Resources		
Deferred amount on refunding of debt, net of amortization	81,227	96,949
Total Deferred Outflows of Resources	81,227	96,949
Total Assets and Deferred Outflows of Resources	\$ 6,189,535	\$ 6,159,993
Liabilities		
Current Liabilities		
Accounts payable	\$ 67,171	\$ 24,031
Payroll taxes payable	6,022	4,340
Accrued payroll	17,087	17,752
Accrued benefits	3,190	1,687
Sales tax payable	10,369	8,467
Accrued interest	2,569	890
Customer deposits	210,747	201,647
Current portion of long-term debt	251,503	246,135
Total Current Liabilities	568,658	504,949
Long-term debt, net of unamortized bond discount	2,115,941	2,367,197
Total Liabilities	2,684,599	2,872,146
Net Position		
Net investment in capital assets	1,459,950	1,203,846
Restricted	1,578,507	1,323,322
Unrestricted	466,479	760,679
Total Net Position	3,504,936	3,287,847
Total Liabilities and Net Position	\$ 6,189,535	\$ 6,159,993

See accompanying notes to financial statements.

CHEROKEE VILLAGE WATERWORKS FACILITIES

BOARD OF SHARP COUNTY, ARKANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Operating Revenue		
Metered water sales, net of bad debts	\$ 1,387,878	\$ 1,303,526
Fire protection	175,874	175,835
Plumbing inspections	1,345	875
Miscellaneous services	-	6,100
Total Operating Revenue	1,565,097	1,486,336
Operating Expenses		
Bank and trustee fees	2,796	1,307
Contract labor	29,375	41,728
Depreciation	223,361	236,126
Dues and licenses	2,108	1,854
Employee benefits	119,986	116,385
Insurance	45,644	37,346
Laboratory fees	15,554	17,168
Office expense	42,826	32,617
Other operating expenses	2,286	3,028
Other taxes and licenses	104	9,931
Payroll taxes	33,135	31,862
Professional fees	29,027	18,133
Repairs and maintenance	45,741	78,817
Salaries and wages	440,672	419,178
Supplies	89,875	28,048
Training and education	6,861	3,727
Uniforms	8,072	9,516
Utilities	113,190	100,676
Vehicle	45,972	33,806
Total Operating Expenses	1,296,585	1,221,253
Net Income From Operations	268,512	265,083
Other Income (Expenses)		
Interest income	9,125	3,852
Realized and unrealized gain (loss) on investments	(3,542)	19,971
Bond issuance costs	-	(90,956)
Interest expense	(57,006)	(66,394)
Total Other Income (Expenses)	(51,423)	(133,527)
Change in Net Position	217,089	131,556
Net Position at Beginning of Year, as previously stated	3,287,847	3,112,684
Prior Period Adjustment	-	43,607
Net Position at Beginning of Year, restated	3,287,847	3,156,291
Net Position at End of Year	\$ 3,504,936	\$ 3,287,847

See accompanying notes to financial statements.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 1,567,792	\$ 1,486,992
Cash payments to suppliers for goods and services	(664,651)	(612,437)
Cash payments to employees for services	(439,759)	(428,848)
Net Cash Provided By Operating Activities	463,382	445,707
Cash Flows From Capital and Related Financing Activities		
Cash paid for property, plant, and equipment	(98,421)	(110,031)
Net proceeds from the issuance of debt	-	2,288,258
Repayment of debt	(246,136)	(2,010,780)
Bond issue costs	-	(90,956)
Interest paid on debt	(39,210)	(54,431)
Net Cash Provided (Used) In Capital and Related Financing Activities	(383,767)	22,060
Cash Flows From Investing Activities		
Net activity of restricted investments	375,063	(375,063)
Proceeds from the sale of stock	59,889	-
Reinvestment of certificate of deposit earnings	(1,292)	(327)
Interest income	9,125	3,852
Net Cash Provided (Used) By Investing Activities	442,785	(371,538)
Net Increase In Cash, Cash Equivalents and Restricted Cash	522,400	96,229
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	936,384	840,155
Cash, Cash Equivalents and Restricted Cash At End of Year	\$ 1,458,784	\$ 936,384
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 256,436	\$ 270,558
Restricted cash and cash equivalents	1,202,348	665,826
Total Cash, Cash Equivalents and Restricted Cash	\$ 1,458,784	\$ 936,384

See accompanying notes to financial statements.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net Income from operations	\$ 268,512	\$ 265,083
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	223,361	236,126
(Increase) decrease in:		
Accounts receivable	(8,307)	(13,883)
Inventory	(17,522)	(46,813)
Prepaid insurance	-	1,865
Increase (decrease) in:		
Accounts payable	(16,184)	(11,730)
Payroll taxes payable	1,682	(989)
Accrued payroll	(665)	1,250
Accrued benefits	1,503	259
Sales tax payable	1,902	170
Customer deposits	9,100	14,369
Net Cash Provided By Operating Activities	\$ 463,382	\$ 445,707
Supplemental Schedule of Noncash Investing Activities		
Total cost of capital assets acquired	\$ 157,745	\$ 97,586
Less: construction payables	(59,324)	-
Total cash paid for fixed asset additions	\$ 98,421	\$ 97,586

See accompanying notes to financial statements.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

Nature of Business

Cherokee Village Waterworks Facilities Board of Sharp County, AR (the Board) was created in 1993 by the Quorum Court of Sharp County. The purpose of the Board is to acquire, construct, maintain and operate a water system for the supplying of water to its customers in various areas within and near Sharp County.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Board's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The Board accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Board. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Income Tax Status

The Board is exempt from income taxes as a governmental agency.

Cash Equivalents

For purposes of the Statement of Cash Flows, the Board considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents including restricted cash.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies

Accounts Receivable

Accounts receivable consists of water fees and surcharges billed to residential and commercial/ industrial customers based on consumption. The Board extends credit for services provided to its customers for a limited period of time. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for doubtful accounts is estimated based on professional judgement and historical information. On December 31, 2022 the and 2021 the allowance for doubtful accounts balance was \$193,010 and \$19,250, respectively.

Inventory

Inventory consists of supplies and repair parts for the operation and maintenance of plant and equipment. The amount recorded in these financial statements is estimated at cost using the first-in, first-out method. The cost of inventory is recognized as an expense when used (consumption method).

Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expense in the year which services are consumed.

Capital Assets

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals or relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Building	40 years
Transmission system	5-50 years
Equipment	7-20 years
Transportation equipment	5 years

It is the Board's policy to capitalize asset purchases equal to or more than \$2,500. Expenditures of less than \$2,500 are expensed at the time of purchase.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price and is amortized over the shorter of the remaining life of the old debt or the life of the new debt.

Compensated Absences

Employees earn vacation in varying amounts based upon length of service with the Board. In addition, employees earn three personal days and two weeks of paid sick leave if needed, after all vacation and personal time has been used. Unused sick and personal time cannot be carried forward from year to year and unused vacation can only be carried forward with Board approval. Therefore, no accrual has for compensated absences was necessary at December 31, 2022 and 2021.

Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. These deposits are non-interest bearing and refundable to customers when the Board no longer serves the customer. The Board uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

Net Position

Net position of the Board are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are 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 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 are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external 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.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets".

The Board does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Management decides which resources (source of funds) to use at the time expenditures are incurred. For classification of net position balance amounts, restricted resources are considered spent before unrestricted.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Board's principal ongoing operations. The principal operating revenues of the Board consist of water sales and fees for miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following accounting pronouncements which became effective for the Waterwork's fiscal year ended December 31, 2022.

GASB Statement No. 87, *Leases*. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of a right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 92, *Omnibus 2020*. The purpose of this statement is to enhance comparability in accounting and financial reporting to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain pension and other post employment retirement plans as fiduciary component units in fiduciary fund financial statements ; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans.

New Accounting Pronouncements (continued)

GASB Statement No. 98, *the Annual Comprehensive Financial Report*. The purpose of this statement is to establish the term annual comprehensive financial report and its acronym ACFR to replace the term comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

With the exception of GASB No. 87 (see Note 5), these statements did not have any impact on the Board's financial statements.

2. Deposits and Investments

The Board does not have a formal deposit and investment policy, but does follow state laws and bond ordinance resolutions.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

State statutes generally require that municipal funds be deposited in federally insured banks located in the state of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States government.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Board's deposits may not be recovered. At December 31, 2022 and 2021, the Board had no deposits that were uninsured or uncollateralized. Independent third parties held securities in the Board's name as collateral at December 31, 2022 and 2021. The bank balances and carrying amount of the Board's deposits held were as follows:

Description	At December 31, 2022		At December 31, 2021	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 500,000	\$ 500,000	\$ 250,000	\$ 250,000
Collateralized - held by pledging bank or pledging bank's trust department in the Board's name	986,592	958,684	689,500	686,284
Cash on hand	-	100	-	100
Total	\$ 1,486,592	\$ 1,458,784	\$ 939,500	\$ 936,384

Deposits as reported in the following Statement of Net Position captions:

As Of December 31,	2022	2021
Cash and cash equivalents	\$ 256,436	\$ 270,558
Restricted cash and cash equivalents	1,202,348	665,826
Total	\$ 1,458,784	\$ 936,384

Investments

Investments consist of certificates of deposit, stock, and accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due, debt service reserves, depreciation reserves, and an account established with 2021 bond proceeds for construction. The investments are stated at fair market value.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

Investments (continued)

The Board's investments consist of the following:

As Of December 31, 2022	Market	Maturity	Credit Rating
Certificate of deposit for debt service and depreciation reserves	\$ 506,750	< 1 year	N/A
Total	\$ 506,750		

As Of December 31, 2021	Market	Maturity	Credit Rating
Government Money Market			
2021 Bond proceeds for construction	\$ 219,397	< 1 year	Aaa-mf
Debt service reserve	132,327	< 1 year	Aaa-mf
Bond fund	23,339	< 1 year	Aaa-mf
Certificate of deposit for debt service and depreciation reserves	505,278	< 1 year	N/A
Stock	63,578	< 1 year	Baa1
Total	\$ 943,919		

Investments as reported in the following Statement of Net Position captions:

As Of December 31,	2022	2021
Certificate of deposit	\$ 3,850	\$ 2,558
Restricted certificate of deposit	502,720	502,720
Investments	-	63,578
Restricted investments	-	375,063
Total	\$ 506,570	\$ 943,919

Interest Rate Risk

Interest rate risk is the risk the changes in interest of debt investments will adversely affect the fair value of an investment. The Board's investments are not subject to interest rate risk as the investments are short-term in nature.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

Investments (continued)

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2022 and 2021, with the exception of the stock which was uninsured, the Board's investments are either FDIC insured, insured through the pledging of securities, or invested in U.S. Government securities, which are considered to be risk-free as they have the backing of the government.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the Board will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held by the Board or by an agent of the Board are in the Board's name.

Fair Value Measurement

The Board's investments are categorized using fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categories are as follows:

Level 1 - Quoted prices for identical investments in active markets.

Level 2 - Quoted prices for identical investments in markets that are not active.

Level 3 - Unobservable inputs

The following table represents the Board's investments that are measured at fair value on a recurring basis at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ 506,750	\$ -	\$ -	\$ 506,750
Total	\$ 506,750	\$ -	\$ -	\$ 506,750

3. Restricted Accounts

The Board has restricted accounts for the following:

Depreciation accounts - restricted for the purpose of reserving funds to make necessary repairs and improvements to the water system.

Meter Deposit Account - restricted for repayment of customer meter deposits.

Debt Service Reserves / Bond Fund - restricted for maintaining a debt service reserve and payment of principal and interest on bonds.

Construction Account - restricted for improvements outlined in the bond official statement.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

3. Restricted Accounts (continued)

Balances of the restricted accounts are as follows:

As of December 31,	2022	2021
Restricted checking accounts:		
Depreciation account	\$ 704,770	\$ 464,179
Meter deposit account	210,747	201,647
Restricted interest bearing business accounts:		
Bond fund	25,437	-
Debt service reserve	133,552	-
Construction account	127,842	-
Total restricted cash and cash equivalents	\$ 1,202,348	\$ 665,826
Restricted certificate of deposit:		
Depreciation account	\$ 475,000	\$ 475,000
Debt service reserve	27,720	27,720
Total restricted certificate of deposit	\$ 502,720	\$ 502,720
As of December 31,	2022	2021
Restricted investments:		
Bond fund	\$ -	\$ 23,339
Debt service reserve	-	132,327
Construction account	-	219,397
Total restricted investments	\$ -	\$ 375,063

4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2022	Additions & Contributions	Retirements/ Transfers	December 31, 2022
Land	\$ 130,708	\$ -	\$ -	\$ 130,708
Transmission and distribution	3,381,374	5,364	-	3,386,738
Improvements	3,423,121	-	-	3,423,121
General plant	384,016	-	-	384,016
Pumping plant	296,211	-	-	296,211
Building	655,926	-	-	655,926
Service of supply	74,211	-	-	74,211

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

4. Capital Assets (continued)

Hydrants	207,751	-	-	207,751
Telemetry equipment	191,327	-	-	191,327
Itron meter	115,603	-	-	115,603
Vehicles	371,919	-	-	371,919
Office equipment	36,231	-	-	36,231
Construction in progress	28,273	152,381	-	180,654
Total Capital Assets	9,296,671	157,745	-	9,454,416
Less: Accumulated Depreciation	5,357,046	223,361	-	5,580,407
Net Capital Assets	\$ 3,939,625	\$ (65,616)	\$ -	\$ 3,874,009

Construction in progress of \$181,154 and \$28,273 at December 31, 2022 and 2021, respectively, consists of fees associated with the Cheyenne ground storage tank replacement, and for the purchase and installation of a generator at the Zia Pump Station. Due to the availability of materials, the Cheyenne project was delayed, but the estimated completion is in 2023 at a total estimated cost of \$200,000. The Zia Pump Station project is also estimated to be completed in 2023 at a cost of \$59,324.

As Of	January 1, 2021	Additions & Contributions	Retirements/ Transfers	December 31, 2021
Land	\$ 130,708	\$ -	\$ -	\$ 130,708
Transmission and distribution	3,371,058	10,316	-	3,381,374
Improvements	3,423,121	-	-	3,423,121
General plant	384,016	-	-	384,016
Pumping plant	286,229	9,982	-	296,211
Building	655,926	-	-	655,926
Service of supply	74,211	-	-	74,211
Hydrants	207,751	-	-	207,751
Telemetry equipment	124,057	67,270	-	191,327
Itron meter	115,603	-	-	115,603
Vehicles	371,919	-	-	371,919
Office equipment	36,231	-	-	36,231
Construction in progress	5,810	28,273	5,810	28,273
Total Capital Assets	9,186,640	115,841	5,810	9,296,671
Less: Accumulated Depreciation	5,120,920	236,126	-	5,357,046
Net Capital Assets	\$ 4,065,720	\$ (120,285)	\$ 5,810	\$ 3,939,625

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

5. Lease

In September 2021, the Board signed a three year lease agreement for office equipment. The Board pays \$90 monthly plus additional variable amounts for usage.

Because this is a contract that conveys the control of the right to use a nonfinancial asset of the Board for a period of time in an exchange transaction, the lease falls under the scope of GASB No. 87, *Leases*. Under the lease standard the Board would need to record a right to use asset and related lease liability for the remaining contract period, which is less than two years at December 31, 2022. Total rental expense remaining on the term of the lease is approximately \$1,888 at December 31, 2022. As this amount is not material to the financial statements, the Board will not record the right to use asset or related liability in the accompanying financial statements. The Board recognized \$1,179 and \$393 of equipment rental expense during the years ended December 31, 2022 and 2021, respectively. Variable usage expenses paid on the lease during the years ended December 31, 2022 and 2021, were \$4,139 and \$1,177, respectively. These expenses are included in utilities expense on the Statement of Revenues, Expenses, and Changes in Net Position.

The Board will continue to evaluate all leases going forward to ensure compliance with the lease standard.

6. Long-Term Debt

On February 25, 2021, the Board issued Water Revenue Refunding and Improvement Bonds, Series 2021 in the amount of \$2,290,000. \$1,841,050 of the proceeds were used to defease the Revenue Refunding Bonds Series 2012, that were called on March 8, 2021. \$400,000 of the proceeds are to fund Board improvements including sand blasting and painting a 150,000 gallon concrete ground water tank and replacing items on the tank as needed, with possible tank replacement. Other improvements include purchasing a new mapping system with handheld GPS, a backhoe, trench box, chlorinator, DC ditch pump, other equipment, replacing office fire alarm system and approximately 300 new meters. The remaining proceeds were used to pay costs associated with bond issue. The issuance of these bonds will result in savings of approximately \$102,000 to the Board over the life of the bonds.

Long-term debt of the Board consists of:

As of December 31,	2022	2021
Rural Development - note dated November 4, 2009 in the amount of \$600,000. Payments in the amount of \$2,268 are made monthly including interest at 3.25%. The note is secured by revenues of the water system and is scheduled to mature in 2050.	\$ 488,730	\$ 499,866

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

6. Long-Term Debt (continued)

Revenue Refunding and Improvement Bonds Series 2021, dated February 25, 2021, in the amount of \$2,290,000. Principal payments are made in annual installments ranging from \$175,000 to \$140,000. Semi-annual interest payments are made with rates varying from 0.70% to 2.00%. The bonds are secured by revenues of the water system with final maturity on December 31, 2030.

	1,880,000	2,115,000
Total long-term debt	2,368,730	2,614,866
Less current maturities	251,503	246,135
Long-Term Debt	2,117,227	2,368,731
Less unamortized discount on 2021 Series bonds	1,286	1,534
Long-term debt, net	\$ 2,115,941	\$ 2,367,197

Each of the Board's outstanding notes from direct borrowings and direct placements contain different provisions for loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the Board on behalf of the issuer until all defaults have been cured; assessing additional interest, penalties and other charges; pursue any remedy by law to enforce payment of principal and interest.

Debt is scheduled to mature as follows:

December 31,	Direct Placements		Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 240,000	\$ 20,384	\$ 11,503	\$ 15,713
2024	245,000	18,704	11,882	15,334
2025	245,000	16,744	12,274	14,942
2026	250,000	14,600	12,679	14,537
2027	250,000	12,100	13,097	14,119
2028-2032	650,000	17,662	72,259	63,821
2033-2037	-	-	84,990	51,090
2038-2042	-	-	99,965	36,115
2043-2047	-	-	117,578	18,502
2048-2050	-	-	52,503	1,792
Total	\$ 1,880,000	\$ 100,194	\$ 488,730	\$ 245,965

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

7. Activity of Long-Term Liabilities

Activity of long-term liabilities consists of the following:

As Of	January 1, 2022	Additions	Retirements	December 31, 2022	Due Within One Year
Rural Development \$	499,866	\$ -	\$ 11,136	\$ 488,730	\$ 11,503
Revenue Refunding and Improvement Bonds 2021	2,115,000	-	235,000	1,880,000	240,000
Total	\$ 2,614,866	\$ -	\$ 246,136	\$ 2,368,730	\$ 251,503

As Of	January 1, 2021	Additions	Retirements	December 31, 2021	Due Within One Year
Rural Development \$	510,646	\$ -	\$ 10,780	\$ 499,866	\$ 11,135
Revenue Refunding Bond 2012	1,825,000	-	1,825,000	-	-
Revenue Refunding and Improvement Bonds 2021	-	2,290,000	175,000	2,115,000	235,000
Total	\$ 2,335,646	\$ 2,290,000	\$ 2,010,780	\$ 2,614,866	\$ 246,135

8. Rate Covenant

The Trust Indenture of the 2021 Series Bonds and Rural Development note both contains a provision (Rate Covenant) which requires the Board to produce total revenues in each fiscal sufficient to (1) pay all operation, repair and maintenance expenses (exclusive of depreciation, interest on bonds, and amortization expenses), (2) make all required deposits into the Debt Service Reserve Fund and/or Depreciation Fund, and (3) leave a balance equal to 110%/120% of the maximum annual debt service requirements of all outstanding Bonds and Parity obligations and to meet various other general requirements. For the years ended December 31, 2022 and 2021, the Board had satisfied the covenants.

9. Bond Discount Costs and Deferred Loss on Refunding

The bond discount incurred in connection with the issuance of the 2021 Series revenue refunding and improvement bonds was \$1,742 and is being amortized over 7 years. Amortization of this discount totaled \$249 and \$207 for the years ended December 31, 2022 and 2021, respectively. Amortization expense is included as a component of interest expense on the Statement of Revenues, Expenses, and Changes in Net Position. The unamortized portion of \$1,286 and \$1,584 at December 31, 2022 and 2021, respectively, is netted with long-term debt.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

9. Bond Discount Costs and Deferred Loss on Refunding (continued)

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance of \$81,227 and \$96,949 at December 31, 2022 and 2021, respectively, as a result of the 2021 Series bond refunding, is shown as deferred outflows on the Statement of Net Position and is being amortized over seven years. Amortization of the deferred loss totaled \$15,721 and \$15,979 for the years ended December 31, 2022 and 2021, respectively, and is included in interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

10. Prior Period Adjustment

A prior period adjustment was made to reflect the ownership of stock purchased by the Board in 2001, of which current Board management was unaware. Upon realization of ownership, the Board immediately sold the stock. The adjustment was made to record the stock at fair value as of January 1, 2021, record a gain for the change in fair value recognized during the year ended December 31, 2021 and record the value of the stock on the Statement of net Position at December 31, 2021. The effect of these adjustments were as follows:

	As Originally Reported	Adjustments	Revised
Investments	-	63,578	63,578
Unrestricted net position	697,101	63,578	760,679
Realized gain on investment	-	19,971	19,971
Change in net position	111,585	19,971	131,556

In addition, certain 2021 amounts have been reclassified in order to conform with the 2022 financial statement presentation. These reclassifications did not change net position or the change in net position.

11. Concentrations of Credit Risk

Financial instruments that potentially subject the Board to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

12. Retirement Plan

All full-time employees who meet eligibility requirements and so elect can participate in the Board's 401(k) Retirement Plan. The Board has the authority to establish and amend the plan documents as necessary. American Funds is the plan trustee. In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings.

CHEROKEE VILLAGE WATERWORKS FACILITIES BOARD OF SHARP COUNTY, ARKANSAS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

12. Retirement Plan (continued)

The Board matches employee contributions up to 3% of the employee's pay. No funds are deposited by the Board unless the employee makes a contribution. Retirement employer matching contributions by the Board for the years ended December 31, 2022 and 2021, were \$9,517 and \$8,495, respectively.

In addition, the Board may make an additional elective discretionary employee contribution to the Plan. The Board made additional elective contributions to the Plan totaling \$11,159 and \$12,500 during the years ended December 31, 2022 and 2021, respectively.

13. Risk Management

The Board is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board carries commercial insurance for all other risks of loss, including workers' compensation insurance and employee health and accident insurance.

There has been no significant reduction in the Board's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Board's coverage in any of the prior three fiscal years.

14. Subsequent Events

The Board has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2022 through March 20, 2023, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

ADDITIONAL REPORT



**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 Board of Directors
Cherokee Village Waterworks Facilities Board of Sharp County, AR
Cherokee Village, 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 Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated March 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' 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 Board'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 or significant deficiencies may exist that were not identified.

Report Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cherokee Village Waterworks Facilities Board of Sharp County, Arkansas' financial statement 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*.

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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fayetteville, Arkansas
March 20, 2023