

CENTERTON WATERWORKS AND SEWER COMMISSION

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022



CENTERTON WATERWORKS AND SEWER COMMISSION

DECEMBER 31, 2022

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Independent Auditor's Report

To the Commissioners
Centerton Waterworks and Sewer Commission
Centerton, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Centerton Waterworks and Sewer Commission (the Commission), as of and for the year ended December 31, 2022, 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 the Centerton Waterworks and Sewer Commission as of December 31, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted on the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Centerton Waterworks and Sewer Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City's water and sewer component unit and do not purport to, and do not, present fairly the financial position of the City of Centerton, Arkansas, as of December 31, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the

design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Centerton Waterworks and Sewer Commission'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.

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 on pages 4-9 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying statement of revenues, expenses, and changes in net position by department is presented for purposes of additional analysis and is not a required part of the financial statements. The statement of revenues, expenses and changes in net position by department is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the schedule of customer counts, volumes, and rates, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2023, on our consideration of the Centerton Waterworks and Sewer Commission'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 Centerton Waterworks and Sewer Commission'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 the Centerton Waterworks and Sewer Commission's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
April 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

Overview

The Centerton Waterworks and Sewer Commission continued its record of successful operation in 2022 doing business as Centerton Utilities. Our city and the surrounding rural area we serve continues to experience high demand for residential housing and associated commercial services. The Commission continues to be focused on providing the best possible service while controlling costs through improvement of system operations and administrative efficiency.

Noteworthy achievements in 2022 were:

- The Commission continues to experience significant annual customer growth for both water and sewer. Our year-over-year growth in 2021 was 8.6% for water and 12.2% for sewer. Over the five-year period 2018-2022 our water customers have increased 50% and our sewer customers have increased 60.9% and there are several indications at year-end that this growth trend will continue.
- This long-term growth in customers has increased our volume of water sales and this substantial increase in water demand is placing a strain on our existing water to meet peak period demand. Late in the year the Commission directed the Engineer Consultant to perform a hydraulic analysis for presentation at our 2022 Long Range Planning session so we can address projects to meet these demands. In subsequent paragraphs below are noted significant changes in our long-range planning as a result of this study.
- The Commission finished construction on a wastewater system improvement to serve significant future needs: Interceptor “C” from our sewer development plan and an extension of sewer to Keller Road on the west side of the city. The project was funded with 2021 Bonds.
- In planning for future wastewater needs the Commission has planned for a northwest sewer project that includes a new lift station, interceptor and force main. This project is in the early stages and the Commission is evaluating different options to secure funding but has not started any formal application processes.
- In planning for future wastewater treatment needs the Commission continues to work with the City of Decatur on planning for the expansion of the wastewater treatment facility. A treatment membrane unit was added in early 2022 to meet the needs of a major Decatur wastewater customer. Planning continues on an additional expansion of the treatment facility to support the residential growth in the two cities. The cost of this expansion will be shared by the two cities in accordance with the terms of the long-term contract.
- During the year the Commission received \$1,000,000 of American Rescue Plan Act funds from Benton County. The funds are to be used on a new water line for the northeast part of our service area.
- The long-range plan included projects anticipated to be needed in the next decade. The plan included a significant change in near term water system projects by accelerating two projects:

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a: Immediate construction a 24-inch main from the North Water tower to a major distribution point at Walter/Harbaugh/Gamble Roads and constructing a connection for dead end 8-inch mains along Ginn Road on the south side of the city. The two projects will significantly increase system efficiency and water quality. The Commission requested the City Council to allocate funds for this project from the American Recovery Plan funding allocated to the City and \$1,300,000 was received from the City to help fund this project. As of the date of the audit report this project is complete.

b: Constructing as soon as possible an additional 3,000,000-gallon Water Tower on the west side of the city with an associated 24-inch main connecting to the distribution line of our potable water. This near-term addition of water storage will significantly improve our ability to meet future growth demand and increase system efficiency by dividing the system into two separate pressure planes with interconnections for emergencies and maintenance. The Commission issued bonds during 2022 for \$13,000,000 to pay for construction of this project.

- Management staffing

a: The Commission added an Accountant in August. It is our belief that having a full time accountant on staff will meet the present and future needs for our growing organization.

b: In September our Utilities Director retired. Our Staff Engineer/Operations Superintendent was promoted to Utilities Director.

The arterial water distribution and sewer collection systems managed by the Commission were/are constructed in large part with debt financing that is being paid off solely by the revenue from water and sewer service. No tax dollars are available to the Commission for its operations. The water distribution lines and sewer collection lines within residential and commercial/industrial developments are required by City Code to be constructed by the developer and donated to the city. During 2022 there were twenty (20) donations of water and sewer infrastructure with a total value of \$7,692,011.

The audited financial statements with the accompanying notes present an overall picture of the Commission and its water distribution and sewage collection systems operations in 2022. Certain financial statements or portions of financial statements are highlighted and discussed below.

Statement of Net Position

In the world of general commerce, this is would be our Balance Sheet.

While the Commission holds significant cash and cash equivalents, the major portion of those assets are restricted by state laws and bond covenants. The largest amount of cash/near cash holding are bond proceeds held for construction in progress.

Over the years the Commission has accumulated some unrestricted cash that allows us to undertake small system expansion and improvements without the use of debt financing.

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The following table is an end of year summary of Net Position.

As of December 31, 2022

Assets

Current and other	\$ 22,538,499
Capital Assets	60,357,696
Total Assets	\$ 82,896,195

Liabilities

Current	\$ 3,167,208
Long Term Debt	39,204,781
Total Liabilities	42,371,989

Net Position

Net investment in capital assets	33,680,735
Restricted	2,209,952
Unrestricted	4,633,519
Total Net Position	40,524,206
Total Liabilities and Net Position	\$ 82,896,195

Outstanding Debt

The existing level of debt reflects our ever increasing need to expand our water distribution and sewer collections systems to meet the demands of our increasing number of customers. We foresee that the existing level of debt will increase over the next few years.

During the year the Commission issued bonds with a total value of \$13,000,000 for financing a new water tower and distribution lines.

The following table displays the Commission's outstanding bonds at the end of the year.

Long Term Debt as of December 31, 2022

USDA	\$ 872,879
2014 Bonds	8,485,000
2018 Bonds	14,215,000
2021 Bonds	4,040,000
2022 Bonds	12,830,000
Total	\$ 40,442,879

Changes in Net Position

Total operating revenue for 2022 increased 29.6% over 2021. The revenue increase reflects our growth in number of customers and their increasing volumes of usage and the enactment of the capacity fees.

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Total expenses are up 16.0% year over year. We believe that this increase was due to inflation and we do not expect that high of an increase to continue in the future because of the Commission's continued efforts to carefully manage growth in numbers of employees and remain heavily focus on preventative maintenance of our water and sewer systems.

The competitive market for personnel in Northwest Arkansas makes it difficult to attract competent personnel. Therefore, the Commission directed an increase to entry level pay. Despite this increase we continue to experience inadequate response to our hiring efforts, a common complaint of employers in Northwest Arkansas. During the year salaried positions were increased to remain competitive in the market as discussed above.

The increase in Capital Contribution reflects the completion of several large residential developments during the year.

The table on the following page summarizes changes in the Commission's net position:

For year ended December 31, 2022	
Operating Revenue	
Water Revenue, net of bad debt	\$ 5,859,765
Sewer Revenue	4,708,627
Capacity fees	1,832,940
Operating services and fees	564,165
Total Operating Revenue	12,965,497
Operating Expenses	
Water Purchased	2,921,313
Sewer Treatment purchased	1,632,410
Employee Compensation and Benefits	1,931,807
Office/administrative expenses	155,455
Depreciation	2,223,346
Professional Fees	190,597
Operating Expenses	473,946
Insurance	65,414
Utilities and Telephone	205,239
Total Expenses	9,799,527
Net Income from Operations	3,165,970
Other Income (Expenses)	
Interest Income	207,187
Insurance Proceeds	276,425
ARDOT Reimbursement	70,081
Bond Issuance Costs and Fees	(255,517)
Interest Expense	(1,238,458)
Trustee Fees	(10,251)
Total Other Income(Expense)	(950,533)
Change In Net Position Before Capital Contributions	2,215,437

CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Transfers	2,300,000
Contributed Capital Improvements	7,692,011
Change in Net position	12,207,448
Net Position at Beginning of Year, as previously stated	28,153,253
Prior Period Adjustment	163,505
Net Position at Beginning of Year, restated	28,316,758
Net Position at End of Year	\$ 40,524,206

Capital Assets

The primary changes in Capital Assets were the donations of water and sewer infrastructure in completed residential subdivisions and the completion of a major construction project.

A major construction project was in process at the end of the year and two were in the infancy stage.

The changes are summarized below:

Additions to Capital Assets in 2022	
Contributed property	7,692,012
Distribution and collection system	2,759,545
Machinery and equipment	125,466
Office furniture and fixtures	4,261
Total Net additions	\$ 10,581,284
Construction in process	
Tower Dome Replacement	249,191
Northwest Sewer Project	80,480
Southern Water Tower	23,716
Water 24 inch distribution main	1,042,040
Total Construction in process	\$ 1,395,427

The Commission remains committed to its goal of providing safe drinking water and sanitary wastewater treatment to the citizens of Centerton and the citizens within our Water Service Area. As such we annually review and adopt a long-range plan for capital needs. Capital needs identified are categorized as: capacity improvements, efficiency improvements, and growth accommodation. Capital needs are also prioritized as to when it is anticipated they will be required.

The Commission remains vigilant of changes to state regulations and laws that may impact of our ability to delivery safe and sanitary water and wastewater service to our customers. Our Utilities

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Director was an active participant in the 2021 legislative process that resulted in Act 605 of 2021 which made notable changes for governance of water suppliers. While we do not anticipate immediate impacts on the Commission or our management as a result of Act 605, multiple new recordkeeping requirements are required by the Act and while they will be beneficial, when fully implemented, a notable expenditure of resources is being required to implement these new requirements.

Commissioner Robert Anderson

Secretary/Treasurer

FINANCIAL STATEMENTS

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF NET POSITION

AS OF DECEMBER 31, 2022

Assets	
Current Assets	
Cash and cash equivalents	\$ 9,761
Restricted cash and cash equivalents	96,557
Certificates of deposit	143,961
Restricted certificates of deposit	60,703
Investments	3,670,000
Restricted investments	17,041,620
Accounts receivable, net of allowance for doubtful accounts	907,944
Inventory	291,975
Prepaid expenses	315,978
Total Current Assets	22,538,499
Noncurrent Assets	
Right-to-use lease asset, net	16,307
Capital assets, net	60,341,389
Total Noncurrent Assets	60,357,696
Total Assets	\$ 82,896,195
Liabilities	
Current Liabilities	
Accounts payable	\$ 640,787
Accrued payroll and related liabilities	36,801
Sales tax payable	18,964
Accrued interest	226,088
Customer deposits	1,018,633
Current portion of lease liability	7,113
Current portion of long-term debt	1,218,822
Total Current Liabilities	3,167,208
Long-Term Liabilities	
Lease liability	9,596
Bonds and notes payable, net unamortized premium and discounts	39,195,185
Total Long-Term Liabilities	39,204,781
Total Liabilities	42,371,989
Net Position	
Net investment in capital assets	33,680,735
Restricted	2,209,952
Unrestricted	4,633,519
Total Net Position	40,524,206
Total Liabilities and Net Position	\$ 82,896,195

See accompanying notes to financial statements.

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2022

Operating Revenue

Water sales, net of bad debts	\$	5,859,765
Sewer revenue, net of bad debts		4,708,627
Capacity fees		1,832,940
Operating services and fees		564,165
Total Operating Revenue		12,965,497

Operating Expenses

Bank charges	13,061
Bill processing	57,305
Bore expenses	48,420
Depreciation and amortization	2,223,346
Employee benefits	274,805
Equipment rental	4,530
Fuel expense	54,228
Insurance	65,414
Licenses, dues, and fees	3,777
Office supplies	11,819
Payroll taxes	118,354
Postage and printing	2,208
Miscellaneous	830
Other operating expenses	290,448
Professional fees	190,597
Salaries and wages	1,510,341
Sewer treatment services	1,632,410
Software	61,925
Uniforms	28,307
Utilities and telephone	205,239
Vehicle expenses	19,304
Water meters	61,546
Water purchased	2,921,313
Total Operating Expenses	9,799,527
Net Income From Operations	3,165,970

See accompanying notes to financial statements.

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2022

Other Income (Expenses)	
Interest income	207,187
Insurance proceeds	276,425
ARDOT reimbursement	70,081
Interest expense	(1,238,458)
Bond issuance costs	(255,517)
Trustee fees	(10,251)
Total Other Expenses	(950,533)
Change in Net Position Before Transfers and Capital Contributions	2,215,437
Transfers	2,300,000
Contributed Capital Improvements	7,692,011
Change in Net Position	12,207,448
Net Position at Beginning of Year, as previously stated	28,153,253
Prior Period Adjustments	163,505
Net Position at Beginning of Year, restated	28,316,758
Net Position at End of Year	\$ 40,524,206

See accompanying notes to financial statements.

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

Cash Flows From Operating Activities

Cash receipts from customers	\$ 12,412,691
Cash payments to suppliers for goods and services	(5,969,889)
Cash payments to employees for services	(1,503,547)
Net Cash Provided By Operating Activities	4,939,255

Cash Flows From Capital and Related Financing Activities

Cash paid for property, plant, and equipment	(3,918,820)
Transfers received from City and County for capital projects	2,300,000
Insurance proceeds for capital projects	276,425
Arkansas Department of Transportation capital project reimbursements	70,081
Net bond proceeds	12,821,775
Bond cost of issuance fees	(207,862)
Trustee fees	(10,251)
Lease payments	(40,364)
Repayment of debt	(1,027,843)
Interest paid on debt	(1,204,576)
Net Cash Provided By Capital and Related Financing Activities	9,058,565

Cash Flows From Investing Activities

Investment purchases, net	(18,975,643)
Net reinvestment of certificate of deposit earnings	(1,058)
Interest income	207,187
Net Cash Used By Investing Activities	(18,769,514)

Net Decrease In Cash, Cash Equivalents and Restricted Cash	(4,771,694)
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	4,878,012
Cash, Cash Equivalents and Restricted Cash At End of Year	\$ 106,318

Reconciliation to the Statement of Net Position

Cash and cash equivalents	\$ 9,761
Restricted cash and cash equivalents	96,557
Total Cash, Cash Equivalents and Restricted Cash	\$ 106,318

See accompanying notes to financial statements.

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

Reconciliation Of Operating Income To Net Cash Provided By Operating Activities

Net Income from operations	\$	3,165,970
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization		2,223,346
(Increase) decrease in:		
Accounts receivable		(656,031)
Inventory		(62,800)
Prepaid expenses		(26,647)
Increase (decrease) in:		
Accounts payable		211,580
Accrued payroll and related liabilities		6,794
Accrued expenses		(26,182)
Sales tax payable		(10,092)
Customer deposits		113,317
Net Cash Provided By Operating Activities	\$	4,939,255

Schedule of Noncash Financing Activities

Underwriter commission	\$	47,655
Municipal Bond Insurance policies	\$	32,819
Right of use lease assets and liabilities	\$	57,073

See accompanying notes to financial statements.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

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Nature of Business

The Centerton Waterworks and Sewer Commission (the Commission) is a proprietary type fund and is a component unit of the City of Centerton, Arkansas. The purpose of the Commission is to provide and maintain water and sewer services to the residents in the City of Centerton and surrounding areas. Activities of the fund include administration, operation and maintenance of the water and sewer systems, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers. The Commission currently services approximately 9,700 active metered water approximately 7,500 sewer customers.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Commission'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 Commission 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.

The Commission is considered to be a component unit of the City of Centerton, Arkansas (the City). These financial statements reflect only the Waterworks and Sewer Commission Fund of the City and, accordingly, do not reflect other activities, funds and account groups of the City.

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 Commission. 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 Commission is exempt from income taxes as a governmental agency.

Cash Equivalents

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

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies (continued)

Investments

Investments are presented at fair value. Investments, consist primarily of U.S. Government mutual and money market funds designated for construction, to service semi-annual bond payments and fund debt service, depreciation reserve funds, and any other required reserves.

Accounts Receivable

Accounts receivable consists of water and sewer fees and surcharges billed to residential and commercial/industrial customers based on consumption. The Commission does not charge interest on overdue accounts but does charge a late fee for late payments. Accounts receivable are recorded net of estimated collectible amounts. The Commission considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, and current economic trends. Balances that remain outstanding after the Commission has used reasonable collection efforts are written off. The allowance for doubtful accounts was \$86,673 at December 31, 2022.

Inventory

Inventories consist of water meters, pipes, valves, miscellaneous parts, and accessories and are stated at the lower of cost or market 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 in which services are consumed.

Capital Outlays and Depreciation

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

Buildings	7 - 50 years
Contributed property	30 - 50 years
Distribution and collection system	7 - 50 years
Machinery and equipment	5 - 15 years
Office furniture and fixtures	5 - 15 years

It is the Commission's policy to capitalize all asset purchases equal to or greater than \$2,500. It is the Commission's policy to expense all asset purchases under \$2,500.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. Summary of Significant Accounting Policies (continued)

Right-of-Use Lease Assets / Lease Liabilities

The Commission determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets represent the Commission's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease during the lease term. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments during the lease term. The Commission uses its incremental borrowing rate to discount the lease payments. Right-to-use lease assets are amortized straight-line over the lease term. Lease liabilities are reduced by the principal portion as the payments are made.

Variable lease payment amounts that cannot be determined at the commencement of the lease such as increases in payments based on changes in index rates or usage, are not included in the right-of-use assets or lease liabilities. These are expensed as incurred.

Leases with a term or twelve months or less are not reflected on the Statement of Net Position. Rental payments are recognized on a straight-line basis over the lease term.

The Commission monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the right-to-use lease asset and lease liability if certain changes occur that are expected to significantly affect the amount of the right-to-use lease asset and/or lease liability.

Compensated Absences

Employees earn vacation, sick and personal pay in varying amounts based upon length of service with the Commission and other criteria. Employees can carryforward a maximum of 60 unused sick days from year to year. No unused vacation or personal days can carryforward to the following year. Upon termination from the Commission, employees are paid their accumulated unused vacation. No unused sick or personal days are paid upon termination. No accrual for compensated absences is necessary at December 31, 2022.

Customer Meter Deposits

Customers are required to make separate water meter and, if applicable, sewer deposits before being connected to the water/sewer systems. If requested by the customer, these deposits are refundable to the customer after two years of timely payments. Otherwise, the Commission uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

The Commission also requires a deposit from contractors while they are working in the Commission's service area. The deposits are refundable after the contractor's work is complete.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. Summary of Significant Accounting Policies (continued)

Net Position

Net position of the Commission 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.

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 Commission does not have a policy addressing whether it considers restricted or unrestricted to have been spent when expenditures are incurred for purposes when both are available. Commission personnel decide which resources to use at the time the expenditures are incurred. For classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted. The Commission's restricted net position are those resources necessary to comply with various covenants of bond financing agreements.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission consist of water sales, sewage fees, 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.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following new accounting standards which became effective or portions thereof became effective during the Commission's fiscal year.

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. The Commission implemented this GASB during the year and recognized \$57,073 for its leased assets and liabilities as of January 1, 2022, and added the appropriate footnote disclosures.

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.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

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 Statement No 87 (see above), these pronouncements did not have any impact on the Commission's financial statements.

2. Deposits and Investments

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

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, the Commission's deposits may not be recovered. At December 31, 2022 all of the Commission's deposits were insured and/or collateralized. The bank balances and carrying amount of the Commission's deposits held were as follows:

As of December 31, 2022	Bank Balance	Carrying Amount
Insured	\$ 101,742	\$ 105,418
Cash on hand	-	900
Total cash and cash equivalents	\$ 101,742	\$ 106,318

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

As Of December 31, 2022	
Cash and cash equivalents	\$ 9,761
Restricted checking and savings accounts	96,557
Total	\$ 106,318

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

2. Deposits with Financial Institutions (continued)

Investments

Investments consist of accounts established for construction, debt service and to administer the scheduled payments of principal and interest on the outstanding bonds as they become due. The investments are stated at fair market value, which approximates cost.

The investments of the Commission consist of the following:

As of December 31, 2022	Market	Weighted Avg. Maturity	Credit Rating
Government Mutual Funds	\$ 12,824,267	\$ 18 days	AAA-mf, AAA-m
Government Mutual Funds	347,353	9 days	AAA-mf, AAA-m
Government Money Market	7,540,000	32 days	AAA-mf, AAA-m
Certificates of deposit	204,664	555 days	N/A
Total	\$ 20,916,284		

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

As Of December 31, 2022	
Certificates of deposit	\$ 143,961
Restricted certificates of deposit	60,703
Investments	3,670,000
Restricted investments	17,041,620
Total	\$ 20,916,284

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 Commission minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

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, the Commission has \$20,711,620 in mutual fund and money market accounts that generally invests in U.S. Treasury and government securities which are investments permitted by Arkansas statutes. These investments are generally considered to be risk-free as they have the backing of the government.

The Commission also has \$204,664 invested in certificates of deposit at December 31, 2022 all of which are covered by FDIC insurance.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

2. Deposits with Financial Institutions (continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the Commission 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 Commission or by an agent of the Commission are in the Commission's name.

Fair Value Measurement

The Commission'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 Commission's investments that are measured at fair value on a recurring basis at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 13,171,620	\$ -	\$ -	13,171,620
Money Market	7,540,000	-	-	7,540,000
Certificates of deposit	204,664	-	-	204,664
Total	\$ 20,916,284	\$ -	\$ -	20,916,284

3. Restricted Assets

Restricted accounts consists of the following:

<u>As Of December 31, 2022</u>	
Checking accounts:	
Depreciation reserve	\$ 45,289
Capacity fees	24,056
Meter deposits	18,633
Refurbishment and replacement	8,579
Total Restricted Checking Accounts	96,557
Certificate of deposit:	
Debt Service Reserve	60,703

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

3. Restricted Assets (continued)

Investments:	
Construction fund	12,753,754
Capacity fees	1,420,000
Meter deposits	1,000,000
American Rescue Plan Act funds	1,000,000
Refurbishment and replacement	450,000
Bond Funds	417,865
Debt service reserve	1
Total Restricted Investments	17,041,620
Total Restricted Cash and Investments	\$ 17,198,880

Meter Deposits - restricted for repayment of customer and/or contractor meter deposits.

Depreciation Fund / Refurbishment and Replacement - for repairs, maintenance, betterments and improvements of the Commission.

Debt Service Reserve - restricted for payment of principal and interest of the USDA Rural Development Bonds if funds are not available.

Construction Fund - bond proceeds restricted for sewer improvements (see Notes 4 and 6).

Bond Funds - established to fund the semi-annual interests and annual principal payments of the 2014, 2018, 2021, 2022-A and 2022-B Series bonds.

Capacity Fees - restricted for projects increasing capacity of system (see Note 12).

American Rescue Plan Act funds - restricted for project (see Note 16).

4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2022	Additions / Transfers	Retirements/ Transfers	December 31, 2022
Land	\$ 1,352,196	\$ -	\$ -	\$ 1,352,196
Buildings	1,878,728	-	-	1,878,728
Contributed property	24,128,511	7,692,012	-	31,820,523
Distribution and collection system	38,950,065	2,759,545	-	41,709,610
Machinery and equipment	1,369,426	125,466	-	1,494,892
Office furniture and fixtures	348,818	4,261	-	353,079
Construction in process	365,879	3,112,700	2,083,153	1,395,426
Total Capital Assets	68,393,623	13,693,984	2,083,153	80,004,454

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

4. Capital Assets (continued)

Less: Accumulated depreciation	17,480,485	2,182,580	-	19,663,065
Capital Assets, Net	\$ 50,913,138	\$ 11,511,404	\$ 2,083,153	\$ 60,341,389

Contributed property represents the value of the infrastructure constructed by developers in new subdivisions. Upon completion of the infrastructure, the developer provides documentation that the infrastructure has been completed in accordance with the approved plans and specifications of the project engineers and policies adopted by the Commission, as well as the cost of the infrastructure. The Commission then records the value of contributed property as provided by the developer. Contributed property received during the year ended December 31, 2022 was \$7,692,012.

Construction in progress is for the following:

Project	Balance at 12/31/22	Total Estimated Cost	Estimated Completion
24" Main Line Extension 72 Tower	\$ 1,042,040	1,100,460	March 2023
Tower Dome Replacement	249,191	498,382	January 2023
Northwest Sewer Project	80,480	15,000,000	2026
Southern Water Tower	23,716	14,000,000	2024
Total	\$ 1,395,427	\$ 30,598,842	

In 2022, the Commission finished up the sewer main project which included the construction of a new sewer line extension from Motley Road to Edgewood Road within the City at a total cost of \$1,857,966. This project was funded with the Series 2021 Water and Sewer Revenue Refunding and Improvement bonds.

Also in 2022, the Commission finished the sewage force main protection project which was for costs incurred to protect a sewage force main while the Arkansas Department of Transportation (ARDOT) replaced a bridge in Decatur, Arkansas. ARDOT reimbursed the Commission for costs incurred on the project, which totaled \$224,987. The Commission recognized \$70,081 in revenue during the year ended December 31, 2022 from ARDOT for this project.

The 24" Main Extension 72 tower project will be funded with American Rescue Act funds. The Commission received \$1,300,000 from the City (see Note 16) for this project. The cost of the project also includes a project to tie-in the two lines along Ginn Road and S. Main Street.

The tower dome replacement project is to repair damage caused by an ice storm. The total cost of the project is \$498,832 which, minus the deductible, was covered by insurance. The Commission received \$276,425 of insurance proceeds during the year ended December 31, 2022.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

4. Capital Assets (continued)

The northwest sewer project is for a new lift station, interceptor and force main. This project is in the early stages. The Commission is currently evaluating different options to secure funding for this project, but has not started any formal application processes.

The southern water tower project is being funded with the Series 2022-A and 2022-B Water and Sewer Improvement Revenue Bonds (see Note 6 for project description).

5. Right-to-Use Lease Assets and Lease Liabilities

The Commission leases construction equipment and office equipment under several non-cancellable leases. The construction equipment contracts are two year leases expiring in February 2023 and charge a fixed rate for usage. The office equipment lease is a five year lease expiring in February 2026. This lease charges a fixed monthly rate, plus additional variable amounts based on usage. The Organization incurred approximately \$868 of variable expenses related to the lease during the year ended December 31, 2022. The Commission also pays sales tax on equipment rental leases. This is expensed as equipment rental as the amounts are paid.

Right-of-use assets consist of the following:

As of December 31, 2022	Construction Equipment	Office Equipment	Total
Right-of-use assets	\$ 39,501	\$ 17,572	\$ 57,073
Less: accumulated amortization	(36,462)	(4,304)	(40,766)
Right-of-use assets, net	3,039	13,268	16,307

Future payments on lease liabilities are as follows:

December 31,	Principal	Interest	Total
2023	\$ 7,113	\$ 416	\$ 7,529
2024	4,173	265	4,438
2025	4,319	119	4,438
2026	1,104	6	1,110
Total	\$ 16,709	\$ 806	\$ 17,515

6. Long-Term Debt

On June 7, 2022, the City issued Water and Sewer Improvement Revenue Bonds Series 2022-A and Series 2022-B in the amounts of \$9,470,000 and \$3,530,000, respectively. The Bonds were issued to fund improvements to the water and sewer system including the construction of a new water tower with new meter vault, a 24" transmission line to the new tower, pumps for the tower, and a 24" distribution line off the new tower to connect to an existing 12" line.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

6. Long-Term Debt (continued)

Long-term debt of the Commission consisted of the following:

As of December 31, 2022

USDA Rural Development Revenue Bonds - dated June 22, 2005 in the amount of \$1,161,000 to finance the acquisition of an adjoining water system. Payments are made monthly in the amount of \$5,039 including interest at 4.25%. The bonds mature in 2045 and are secured by revenues of the water and sewer system.	\$ 872,879
Water and Sewer Revenue Bonds - dated September 4, 2014, in the amount of \$9,995,000 to design and construct a wastewater transmission line to the City of Decatur, Arkansas' wastewater treatment plant and related improvements. Principal payments are made annually ranging from \$205,000 to \$545,000. Interest payments are made semi-annually at rates ranging from 2.00% to 4.00%. The bonds mature in 2045 and are secured by revenues of the water and sewer system.	8,485,000
Water and Sewer Revenue Improvement and Refunding Bonds - dated December 20, 2018, in the amount of \$15,985,000 to refund the Water and Sewer Refunding Revenue Bonds, Series 2012, and for improvements including a new water tower, new pumping station and completion of a sewer collection system for the southern portion of the City. Principal payments are made annually ranging from \$440,000 to \$915,000. Interest payments are made semi-annually at rates ranging from 3.00% to 4.00%. The bonds mature in 2044 and are secured by revenues of the water and sewer system.	14,215,000
Water and Sewer Revenue Refunding and Improvement Bonds - dated April 29, 2021, in the amount of \$4,265,000 to refund the Water and Sewer Revenue Improvement Bonds, Series 2019, and to construct a new sewer main line extension. Principal payments are made annually ranging from \$75,000 to \$225,000. Interest payments are made semi-annually at rates ranging from 1.00% to 2.25%. The bonds mature in 2044 and are secured by revenues of the water and sewer system.	4,040,000
Water and Sewer Improvement Revenue Bonds, Series 2022-A - private placement bonds dated June 7, 2022 in the amount of \$9,470,000. The bonds are issued in conjunction with Series 2022B for the construction of a new water tower with a new transmission and distribution lines, and related equipment. Principal payments are made annually ranging from \$170,000 to \$630,000. Interest is paid semi-annually at 3.45%. The bonds mature in 2042 and are secured by revenues of the water and sewer system.	9,300,000

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

6. Long-Term Debt (continued)

As of December 31, 2022

Water and Sewer Improvement Revenue Bonds, Series 2022-B - dated June 7, 2022 in the amount of \$3,530,000. Issued in conjunction with Series 2022-A (see above for purpose of bonds). Semi-annual interest only payments commence in December 2022 at rates ranging from 4.0% to 4.125%. Annual principal payments ranging from \$650,000 to \$765,000 commence after the retirement of the 2022-A Series bonds in 2043. The bonds mature in 2047 and are secured by revenues of the water and sewer system.		3,530,000
Total		40,442,879
Less: Current maturities		1,218,822
Long-term debt		39,224,057
Plus: unamortized bond premium		133,227
Less: unamortized bond discount		(162,099)
Long-Term Debt	\$	39,195,185

Debt is scheduled to mature as follows:

December 31,	Direct Placement		Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 1,195,000	\$ 1,380,009	\$ 23,822	\$ 36,646
2024	1,220,000	1,344,232	24,854	35,614
2025	1,250,000	1,307,652	25,931	34,537
2026	1,295,000	1,267,605	27,055	33,413
2027	1,340,000	1,227,812	28,228	32,240
2028-2032	7,340,000	5,479,794	160,585	141,755
2033-2037	8,660,000	4,160,684	198,531	103,809
2038-2042	10,310,000	2,511,809	245,444	56,896
2043-2046	6,960,000	665,375	138,429	42,975
Total	\$ 39,570,000	\$ 19,344,972	\$ 872,879	\$ 517,885

The bond trust indentures contain certain provisions in the event of loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the Commission on behalf of the issuer until all defaults have been cured; take possession of the facility, repair, maintain, and operate or rent it; enforce any and all other rights and remedies by law.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

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
USDA	\$ 895,722	\$ -	\$ 22,843	\$ 872,879	\$ 23,822
2014 Bonds	8,715,000	-	230,000	8,485,000	240,000
2018 Bonds	14,670,000	-	455,000	14,215,000	470,000
2021 Bonds	4,190,000	-	150,000	4,040,000	155,000
2022-A Bonds	-	9,470,000	170,000	9,300,000	330,000
2022-B Bonds	-	3,530,000	-	3,530,000	-
Lease liabilities	57,073	-	40,364	16,709	7,113
Total	\$ 28,527,795	\$ 13,000,000	\$ 1,068,207	\$ 40,459,588	\$ 1,225,935

8. Bond Discount and Premium

The bond issue discounts incurred with the issuance of the 2022-B Water and Sewer Improvement Revenue Bonds, 2021 Series Water and Sewer Revenue Refunding and Improvement Bonds and the 2018 Water and Sewer Revenue Improvement and Refunding Bonds totaling \$97,757, \$11,752 and \$65,951, respectively, represent the additional interest (over and above any cash interest) over the term of the bonds. The original issue discounts are being amortized using the straight-line method over the lives of the bonds which range between 24 and 26 years. Amortization of the bond discounts totaled \$5,402 for the year ended December 31, 2022, and is included with interest expense on the Statement of Revenues, Expenses and Changes in Net Position. The unamortized portion is subtracted from long-term debt.

The reoffering premium incurred in connection with the 2014 Water Revenue Bonds totaled \$184,468 and is being amortized using the straight-line method over 30 years. Amortization of the bond premium was \$6,149 for the year ended December 31, 2022, and is net with interest expense in the Statement of Revenues, Expenses and Changes in Net Position. The unamortized portion is added to long-term debt.

9. Bond Covenants

The Commission's bond ordinance contains a provision (the Rate Covenant) which requires the Commission to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, (2) fund required reserves (3) leave a minimum balance to fund debt service requirements to which the system revenues are pledged. For the year ended December 31, 2022, the Commission was in compliance with the rate covenant.

The bond ordinance also contains specific requirements for annual debt service and various covenants which require the Commission to maintain various restricted cash and investment accounts and to meet various other general requirements. The Commission was in compliance with all such significant financial covenants and restrictions for the year ended December 31, 2022.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

10. Prior Period Adjustments

Two prior period adjustments were made to correct accounting errors. The first entry was to correct some accounts payable that had been recorded twice at December 31, 2021. The effect of this entry decrease accounts payable and increase unrestricted net position by \$151,230. The second entry was to correct the meter deposit liability to agree to billing reports. The effect of this entry was to decrease the meter deposit liability account and increase unrestricted net position by \$12,275. As a result of these two entries, net position at January 1, 2022 increased by \$163,505.

11. Contract Revenue - City of Highfill

On January 14, 2020, the City entered into a twenty year agreement with the City of Highfill to provide disposal of the City of Highfill's wastewater. The Commission charges specified rates per gallons received. The City of Highfill may cancel the contract after the ninth year with a prepayment penalty. During the year ended December 31, 2022, the Commission received \$200,700 from the City of Highfill for wastewater disposal which is included in other operating services and fees on the Statement of Revenues, Expenses and Changes in Net Position.

The Organization received an additional \$15,261 from Highfill during the year ended December 31, 2022 for maintenance and repairs and other miscellaneous services which is included in other operating services and fees on the Statement of Revenues, Expenses and Changes in Net Position.

12. Capacity Fee Revenue

The Commission charges developers a capacity fee based upon the meter size required for the new lot. Capacity fees are development impact fees to recoup expenditures for the planning, design, and construction of new public facilities or of capital improvements to the existing facility that expand its capacity. Amounts collected may only be used for the sewer main and water tower projects (see Note 4), including debt service expenditures. The Commission collected \$1,832,940 in capacity fees during the year ended December 31, 2022.

13. Concentrations of Credit Risks

a. Revenues & Receivables

The Commission is engaged in operating water and sewer systems in Centerton, Arkansas and surrounding areas. Although the Commission has a diverse customer base, a portion of its customer's ability to honor their water bills is dependent upon the economy of the surrounding area.

b. Water Supply System

The Commission purchases its water from Benton/Washington Regional Public Water Authority. If the cost of the water were to increase or the possibility of the Commission to have to obtain water from another supplier was to occur, this may have an effect on the Commission's ability to continue in its current state.

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

14. Wastewater Treatment

On August 19, 2013, the City signed a thirty year agreement with the City of Decatur, Arkansas. Under the contract, the City of Decatur agrees to accept and treat at its plant, sewage as delivered by the Commission. The Commission pays the City of Decatur a base rate per 1,000 gallons of flow plus an additional treatment surcharge. The surcharge will continue until the earlier of ten years from the commencement of delivery or aggregate surcharge payments total \$500,000. During the year ended December 31, 2022, the Commission paid \$1,632,410 to the City of Decatur for wastewater treatment services.

15. Retirement Plan

The Commission offers employees a deferred retirement savings plan created in accordance with the Internal Revenue Code Section 457. The Plan permits employees to defer 5% of their salary until future years. Participation is required after employees have completed one year of service. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. The Commission has no liability for losses under the plan.

Investments are managed by the plan's administrator under several different investment options, or combinations thereof. The choice of the investment option(s) is made by the participants. The Commission has no management control over the assets of the plan. Thus the assets of the plan and the offsetting liability to employees are not recorded in the Commission's financial statements.

On behalf of each participant, the Commission may make a discretionary contribution to the Plan. During the year ended December 31, 2022, the Commission matched 7.5% of each employee's compensation which totaled \$86,818.

16. Transfers

The Commission received the following transfers:

Year Ended December 31, 2022		
City of Centerton	\$	1,300,000
Benton County		1,000,000
Total transfers	\$	2,300,000

The Commission received \$1,300,000 from the City of Centerton of American Rescue Plan Act funds that were used for the 24" Main Extension 72 tower project (see Note 4).

CENTERTON WATERWORKS AND SEWER COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

16. Transfers (continued)

Benton County transferred \$1,000,00 of American Rescue Plan Act funds to the Commission for a new water line on Pumpkin Hollow Road. This project had not begun as of December 31, 2022.

17. Risk Management

The Commission 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 Commission carries property and liability insurance as well as workers' compensation insurance to minimize the risk of loss.

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

During the ordinary course of business, the Commission may be subject to claims and lawsuits. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that the disposition or resolution of such claims and lawsuits, if any, will not have a material effect on the financial position of the Commission.

18. Subsequent Events

The Commission has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2022 through April 14, 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.

SUPPLEMENTAL INFORMATION

CENTERTON WATERWORKS AND SEWER COMMISSION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY DEPARTMENT

FOR THE YEAR ENDED DECEMBER 31, 2022

	Water	Sewer	Total
Operating Revenue			
Water sales, net of bad debts	\$ 5,859,765	\$ -	\$ 5,859,765
Sewer revenue	-	4,708,627	4,708,627
Capacity fees	1,244,236	588,704	1,832,940
Operating services and fees	329,954	234,211	564,165
Total Operating Revenue	7,433,955	5,531,542	12,965,497
Operating Expenses			
Bank charges	13,007	54	13,061
Bill processing	27,653	29,652	57,305
Bore expenses	48,420	-	48,420
Depreciation	1,285,856	937,490	2,223,346
Employee benefits	134,142	140,663	274,805
Equipment lease expense	1,215	3,315	4,530
Fuel expense	26,752	27,476	54,228
Insurance	32,707	32,707	65,414
Licenses, dues, and fees	1,991	1,786	3,777
Office supplies	5,923	5,896	11,819
Payroll taxes	66,041	52,313	118,354
Postage and printing	1,162	1,046	2,208
Miscellaneous	(4,675)	5,505	830
Other operating expenses	152,524	137,924	290,448
Professional fees	98,986	91,611	190,597
Salaries and wages	846,705	663,636	1,510,341
Sewer treatment services	-	1,632,410	1,632,410
Software	31,948	29,977	61,925
Uniforms	14,684	13,623	28,307
Utilities and telephone	94,329	110,910	205,239
Vehicle expenses	9,430	9,874	19,304
Water meters	61,546	-	61,546
Water purchased	2,921,313	-	2,921,313
Total Operating Expenses	5,871,659	3,927,868	9,799,527
Net Income From Operations	1,562,296	1,603,674	3,165,970
Other Income (Expenses)			
Interest income	196,035	11,152	207,187
Reimbursement	276,425	-	276,425
ARDOT Reimbursement	-	70,081	70,081
Interest expense	(575,663)	(662,795)	(1,238,458)
Bond issuance costs	(255,517)	-	(255,517)
Trustee fees	(10,251)	-	(10,251)
Total Other Expenses	(368,971)	(581,562)	(950,533)
Change in Net Position	\$ 1,193,325	\$ 1,022,112	\$ 2,215,437

See independent auditor's report.

OTHER INFORMATION

CENTERTON WATERWORKS AND SEWER COMMISSION

SCHEDULE OF CUSTOMER COUNTS, VOLUMES, AND RATES

FOR THE YEAR ENDED DECEMBER 31, 2022

Water customers	9,735
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Sewer customers	7,479
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Gallons purchased	1,083,339,000
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Gallons billed	624,973,000
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Water Rates

Inside City Residential	\$20.00 - \$1,066 base plus \$4.65 per thousand thereafter
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Inside City Irrigation	\$20.00 - \$1,066 base plus \$4.65 per thousand thereafter
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Outside City Residential	\$25.00 - \$1,333 base plus \$4.95 per thousand thereafter
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Outside City Irrigation	\$25.00 base plus \$4.95 per thousand thereafter
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Double Residence	\$50.25 base plus \$4.95 per thousand thereafter
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All commercial	\$34.50 - \$1,840 base plus \$3.45 per thousand gallons 1,000 - 99,999 \$3.25 per thousand gallons 100,000 - 499,999 \$3.15 per thousand gallons over 499,999 Includes within city limits of Bentonville, Bella Vista and Gravette Includes Tax Exempt Accounts
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Sewer Rates

Inside City	\$16.76 - \$894 base plus \$7.99 per thousand gallons 1,000 - 299,999 \$8.57 per thousand gallons over 300,000
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Outside City *	\$18.18 - \$970 base plus \$9.08 per thousand gallons 1,000 - 299,999 \$9.66 per thousand gallons over 300,000
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Inside City (no water)	\$42.19 per month
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Outside City (no water)	\$49.19 per month
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* Sewer services outside the corporate limits of Centerton is handled on an individual basis and requires special approval before service is granted. Call the office for details.

Note - Base rates vary depending on the size meter required for the property

See independent auditor's report.

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 Commissioners
Centerton Waterworks and Sewer Commission
Centerton, 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 Centerton Waterworks and Sewer Commission, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the System's financial statements, and have issued our report thereon dated April 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Centerton Waterworks and Sewer Commission'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Centerton Waterworks and Sewer Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Centerton Waterworks and Sewer Commission'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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Centerton Waterworks and Sewer Commission'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

This 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 the 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
April 14, 2023