

**CENTERTON WATERWORKS AND SEWER COMMISSION**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**



**CENTERTON WATERWORKS AND SEWER COMMISSION**  
**DECEMBER 31, 2023 AND 2022**

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## **Independent Auditor's Report**

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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 years ended December 31, 2023 and 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, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted on 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 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, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years 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. Such information 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 statement of revenues, expenses, and changes in net position by department 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 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 May 22, 2024, 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**  
**May 22, 2024**

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

CENTERTON WATERWORKS & SEWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

*Overview*

The Centerton Waterworks and Sewer Commission continued its record of successful operation in 2023 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 2023 were:

- The Commission continues to experience significant annual customer growth for both water and sewer. Our year-over-year growth in 2023 was 8.5% for water and 8.9% for sewer. Over the five-year period 2019-2023 our water customers have increased 42% and our sewer customers have increased 56% and there are several indications at year-end that this growth trend will continue.
- In planning for future wastewater needs the Commission identified a couple of projects. One project is 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. The other project is for improvements to the wastewater system in the downtown area. This project was contracted in 2023 and should be completed in 2024.
- 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. 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.
- 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:
  - a: Constructed a 24-inch main from the North Water tower to a major distribution point at Walter/Harbaugh/Gamble Roads and constructed a connection for dead end 8-inch mains along Ginn Road on the south side of the city. The two projects significantly increased system efficiency and water quality. This project was completed in 2023 and is operational.
  - b: Constructing an additional 2,500,000-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 2023 for \$7,000,000 and 2022 for \$13,000,000 to pay for construction of this project. Construction has started and should be completed by 2026.

CENTERTON WATERWORKS & SEWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

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 2023 there were ten (10) donations of water and sewer infrastructure with a total value of \$4,899,176.

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 2023. Certain financial statements or portions of financial statements are highlighted and discussed below.

***Statement of Net Position***

In the world of general commerce, this 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.

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

<b>As of December 31, 2023</b>	
<b>Assets</b>	
Current and other	\$ 29,222,484
Capital Assets	68,047,117
<b>Total Assets</b>	<b>\$ 97,269,601</b>
<b>Liabilities</b>	
Current	\$ 4,502,489
Long Term Debt	44,824,976
<b>Total Liabilities</b>	<b>49,327,465</b>
<b>Net Position</b>	
Net investment in capital assets	39,751,729
Restricted	3,991,190
Unrestricted	4,199,217
<b>Total Net Position</b>	<b>47,942,136</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 97,269,601</b>



CENTERTON WATERWORKS & SEWER COMMISSION  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

***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 \$7,000,000 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, 2023**

USDA	\$	849,046
2014 Bonds		8,245,000
2018 Bonds		13,745,000
2021 Bonds		3,885,000
2022 Bonds		12,500,000
2023 Bonds		7,000,000
<b>Total</b>	<b>\$</b>	<b>46,224,046</b>

***Changes in Net Position***

Total operating revenue for 2023 increased 5.8% over 2022. The revenue increase reflects our growth in number of customers and their increasing volumes of usage and an increase in water rates.

Total expenses are up 11.3% 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. We continue to experience inadequate response to our hiring efforts, a common complaint of employers in Northwest Arkansas so we continue to review our compensation packages.

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, 2023**

<b>Operating Revenue</b>		
Water Revenue, net of bad debt	\$	6,267,804
Sewer Revenue		4,877,469
Capacity fees		2,010,518
Operating services and fees		565,556
<b>Total Operating Revenue</b>		<b>13,721,347</b>

CENTERTON WATERWORKS & SEWER COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2023

<b>Operating Expenses</b>	
Water Purchased	3,052,055
Sewer Treatment purchased	1,671,278
Employee Compensation and Benefits	2,353,300
Office/administrative expenses	202,198
Depreciation	2,309,666
Professional Fees	260,888
Operating Expenses	764,781
Insurance	79,296
Utilities and Telephone	219,963
<b>Total Expenses</b>	<b>10,913,425</b>
<b>Net Income from Operations</b>	<b>2,807,922</b>
<b>Other Income (Expenses)</b>	
Interest Income	1,031,739
Insurance Proceeds	234,348
Other Revenues	34,596
Loss on Inventory Disposal	(21,080)
Bond Issuance Costs and Fees	(145,080)
Interest Expense	(1,410,730)
Trustee Fees	(12,961)
<b>Total Other Income(Expense)</b>	<b>(289,168)</b>
<b>Change In Net Position Before Capital Contributions</b>	<b>2,518,754</b>
Transfers	--
Contributed Capital Improvements	4,899,176
<b>Change in Net position</b>	<b>7,417,930</b>
<b>Net Position at Beginning of Year</b>	<b>40,524,206</b>
<b>Net Position at End of Year</b>	<b>\$ 47,942,136</b>

***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 one was in the infancy stage.

The changes are summarized below:

<b>Additions to Capital Assets in 2023</b>	
Contributed property	4,899,176
Distribution and collection system	1,663,898
Machinery and equipment	188,589
<b>Total Net additions</b>	<b>\$ 6,751,663</b>

CENTERTON WATERWORKS & SEWER COMMISSION  
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DECEMBER 31, 2023

<b>Construction in process</b>	
Northwest Sewer Project	80,480
Southern Water Tower	4,403,131
<b>Total Construction in process</b>	<b>\$ 4,483,611</b>

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 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

## STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2023	2022
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,832	\$ 9,761
Restricted cash and cash equivalents	306,447	96,557
Certificates of deposit	55,581	143,961
Restricted certificates of deposit	-	60,703
Investments	4,170,460	3,412,040
Restricted investments	23,088,342	17,299,580
Accounts receivable, net of allowance for doubtful accounts	926,544	907,944
Inventory	349,650	291,975
Prepaid expenses	303,628	315,978
<b>Total Current Assets</b>	29,222,484	22,538,499
<b>Noncurrent Assets</b>		
Right-to-use lease asset, net	137,243	16,307
Capital assets, net	67,909,874	60,341,389
<b>Total Noncurrent Assets</b>	68,047,117	60,357,696
<b>Total Assets</b>	\$ 97,269,601	\$ 82,896,195
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Outstanding checks in excess of bank balance	\$ 198,037	\$ -
Accounts payable	1,363,556	640,787
Accrued payroll and related liabilities	44,138	36,801
Sales tax payable	22,747	18,964
Accrued interest	217,957	226,088
Customer deposits	1,140,233	1,018,633
Current portion of lease liability	55,967	7,113
Current portion of long-term debt	1,459,854	1,218,822
<b>Total Current Liabilities</b>	4,502,489	3,167,208
<b>Long-Term Liabilities</b>		
Lease liability	88,869	9,596
Bonds and notes payable, net unamortized premium and discounts	44,736,107	39,195,185
<b>Total Long-Term Liabilities</b>	44,824,976	39,204,781
<b>Total Liabilities</b>	49,327,465	42,371,989
<b>Net Position</b>		
Net investment in capital assets	39,751,729	33,680,735
Restricted	3,991,190	2,209,952
Unrestricted	4,199,217	4,633,519
<b>Total Net Position</b>	47,942,136	40,524,206
<b>Total Liabilities and Net Position</b>	\$ 97,269,601	\$ 82,896,195

See accompanying notes to financial statements.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2023	2022
<b>Operating Revenue</b>		
Water sales, net of bad debts	\$ 6,267,804	\$ 5,859,765
Sewer revenue, net of bad debts	4,877,469	4,708,627
Capacity fees	2,010,518	1,832,940
Operating services and fees	565,556	564,165
<b>Total Operating Revenue</b>	<b>13,721,347</b>	<b>12,965,497</b>
<b>Operating Expenses</b>		
Bank charges	30,485	13,061
Bill processing	65,060	57,305
Bore expenses	24,378	48,420
Depreciation and amortization	2,309,666	2,223,346
Employee benefits	384,408	274,805
Equipment rental	20,434	4,530
Fuel expense	45,669	54,228
Insurance	79,296	65,414
Licenses, dues, and fees	8,187	3,777
Office supplies	17,549	11,819
Payroll taxes	138,447	118,354
Postage and printing	2,797	2,208
Miscellaneous	94	830
Other operating expenses	240,251	290,448
Professional fees	260,888	190,597
Repairs and replacements	109,775	-
Salaries and wages	1,795,019	1,510,341
Sewer treatment services	1,671,278	1,632,410
Software	78,026	61,925
Uniforms	35,426	28,307
Utilities and telephone	219,963	205,239
Vehicle expenses	34,084	19,304
Water meters	290,190	61,546
Water purchased	3,052,055	2,921,313
<b>Total Operating Expenses</b>	<b>10,913,425</b>	<b>9,799,527</b>
<b>Net Income From Operations</b>	<b>2,807,922</b>	<b>3,165,970</b>

See accompanying notes to financial statements.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2023	2022
<b>Other Income (Expenses)</b>		
Interest income	\$ 1,031,739	\$ 207,187
Insurance proceeds	234,348	276,425
ARDOT reimbursement	10,487	70,081
Other revenues	24,109	-
Loss on inventory disposal	(21,080)	-
Interest expense	(1,410,730)	(1,238,458)
Bond issuance costs	(145,080)	(255,517)
Trustee fees	(12,961)	(10,251)
<b>Total Other Expenses</b>	<b>(289,168)</b>	<b>(950,533)</b>
<b>Change in Net Position Before Transfers and Capital Contributions</b>	<b>2,518,754</b>	<b>2,215,437</b>
Transfers	-	2,300,000
Contributed capital improvements	4,899,176	7,692,011
<b>Change in Net Position</b>	<b>7,417,930</b>	<b>12,207,448</b>
<b>Net Position at Beginning of Year, as previously stated</b>	<b>40,524,206</b>	<b>28,153,253</b>
Prior period adjustments	-	163,505
<b>Net Position at Beginning of Year, restated</b>	<b>40,524,206</b>	<b>28,316,758</b>
<b>Net Position at End of Year</b>	<b>\$ 47,942,136</b>	<b>\$ 40,524,206</b>

See accompanying notes to financial statements.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2023	2022
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers	\$ 13,828,130	\$ 12,412,691
Cash payments to suppliers for goods and services	(6,629,360)	(6,052,383)
Cash payments to employees for services	(1,787,682)	(1,503,547)
Other cash receipts	24,109	-
<b>Net Cash Provided By Operating Activities</b>	<b>5,435,197</b>	<b>4,856,761</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Cash paid for property, plant, and equipment	(4,265,651)	(3,836,326)
Transfers received from City and County for capital projects	-	2,300,000
Insurance proceeds for capital projects	234,348	276,425
Arkansas Department of Transportation capital project reimbursements	10,487	70,081
Net bond proceeds	7,000,000	12,821,775
Bond cost of issuance fees	(145,080)	(207,862)
Trustee fees	(12,961)	(10,251)
Lease payments	(31,112)	(40,364)
Repayment of debt	(1,218,833)	(1,027,843)
Interest paid on debt	(1,418,074)	(1,204,576)
<b>Net Cash Provided By Capital and Related Financing Activities</b>	<b>153,124</b>	<b>9,141,059</b>
<b>Cash Flows From Investing Activities</b>		
Investment purchases, net	(6,547,182)	(18,975,643)
Redemption of certificates of deposit	149,359	-
Net reinvestment of certificate of deposit earnings	(276)	(1,058)
Interest income	1,031,739	207,187
<b>Net Cash Used In Investing Activities</b>	<b>(5,366,360)</b>	<b>(18,769,514)</b>
<b>Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash</b>	<b>221,961</b>	<b>(4,771,694)</b>
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	106,318	4,878,012
<b>Cash, Cash Equivalents and Restricted Cash At End of Year</b>	<b>\$ 328,279</b>	<b>\$ 106,318</b>
<b>Reconciliation to the Statement of Net Position</b>		
Cash and cash equivalents	\$ 21,832	\$ 9,761
Restricted cash and cash equivalents	306,447	96,557
<b>Total Cash, Cash Equivalents and Restricted Cash</b>	<b>\$ 328,279</b>	<b>\$ 106,318</b>

See accompanying notes to financial statements.



# CENTERTON WATERWORKS AND SEWER COMMISSION

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2023	2022
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities</b>		
Net Income from operations	\$ 2,807,922	\$ 3,165,970
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	2,309,666	2,223,346
Other income	24,109	-
(Increase) decrease in:		
Accounts receivable	(18,600)	(656,031)
Inventory	(78,755)	(62,800)
Prepaid expenses	12,350	(26,647)
Increase (decrease) in:		
Outstanding checks in excess of bank balance	198,037	-
Accounts payable	47,748	129,086
Accrued payroll and related liabilities	7,337	6,794
Accrued expenses	-	(26,182)
Sales tax payable	3,783	(10,092)
Customer deposits	121,600	113,317
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 5,435,197</b>	<b>\$ 4,856,761</b>

### Supplemental Schedule of Noncash Capital and Related Financing Activities

Total cost of fixed assets acquired	\$ 9,839,848	\$ 11,610,831
Less: Noncash contributions of capital assets from developers	(4,899,176)	(7,692,011)
Current year construction payables	(757,515)	(82,494)
Plus: prior year construction payables	82,494	-
<b>Net cash used to acquire capital assets</b>	<b>4,265,651</b>	<b>3,836,326</b>
Right to use lease assets acquired in exchange for lease liabilities	\$ 159,239	\$ 57,073
Underwriter commission	\$ -	\$ 47,655
Municipal Bond Insurance policies	\$ -	\$ 32,819

See accompanying notes to financial statements.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 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 10,500 active metered water approximately 8,100 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

DECEMBER 31, 2023 AND 2022

### 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 some of which are designated for construction, to service semi-annual bond payments and fund debt service, depreciation reserve funds, and 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 \$36,653 and \$86,673 at December 31, 2023 and 2022, respectively.

#### 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 and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. 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, 2023 AND 2022

### 1. Summary of Significant Accounting Policies (continued)

#### Right-to-Use Lease Assets / Lease Liabilities

The Commission determines if an arrangement contains a lease at the inception of a contract. Right-to-use assets represent the Commission's right to use an underlying asset for the lease term and lease liabilities represent the Commission's obligation to make lease payments arising from the lease during the lease term. Right-to-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. Lease liabilities are reduced by the principal portion as the payments are made. Right-to-use lease assets are amortized straight-line over the lease term with estimated useful lives as follows:

Construction equipment	3 years
Office equipment	5 years

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-to-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 leases, and will remeasure the right-to-use lease assets and lease liabilities if certain changes occur that are expected to significantly affect the amount of the right-to-use lease assets and/or lease liabilities.

#### 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, 2023 and 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, 2023 AND 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 investment 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 investment 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 primarily 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, 2023 AND 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. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. The purpose of this statement is to improve financial reporting issues related to PPPs.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance and financial reporting for subscription-based technology arrangements (SBITAs). The statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA.

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.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits and Investments (continued)

#### 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, 2023 and 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,	As of December 31, 2023		As of December 31, 2022	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 147,003	\$ 318,905	\$ 101,742	\$ 105,418
Pledged with securities	-	8,474	-	-
Cash on hand	-	900	-	900
Total cash and cash equivalents	\$ 147,003	\$ 328,279	\$ 101,742	\$ 106,318

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

As Of December 31,	2023	2022
Cash and cash equivalents	\$ 21,832	\$ 9,761
Restricted checking and savings accounts	306,447	96,557
Total	\$ 328,279	\$ 106,318

#### 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, 2023	Market	Weighted Avg. Maturity	Credit Rating
Government Mutual Fund	\$ 17,823,225	\$ 45 days	AAA
Government Mutual Fund	365,576	34 days	AAA
Government Mutual Fund	9,070,000	45 days	AAA
Certificates of deposit	55,582	202 days	N/A
Total	\$ 27,314,383		

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits with Financial Institutions (continued)

<b>As of December 31, 2022</b>	<b>Market</b>	<b>Weighted Avg. Maturity</b>	<b>Credit Rating</b>
Government Mutual Fund	\$ 12,824,267	\$ 18 days	AAA
Government Mutual Fund	347,353	9 days	AAA
Government Mutual Fund	7,540,000	32 days	AAA
Certificates of deposit	204,664	261 days	N/A
<b>Total</b>	<b>\$ 20,916,284</b>		

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

<b>As Of December 31,</b>	<b>2023</b>	<b>2022</b>
Certificates of deposit	\$ 55,581	\$ 143,961
Restricted certificates of deposit	-	60,703
Investments	4,170,460	3,412,040
Restricted investments	23,088,342	17,299,580
<b>Total</b>	<b>\$ 27,314,383</b>	<b>\$ 20,916,284</b>

#### **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, 2023 and 2022, the Commission had \$27,258,802 and \$20,711,620 in government mutual and money market accounts that generally invest 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 had \$55,582 and \$204,664 invested in certificates of deposit at December 31, 2023 and 2022, all of which are covered by FDIC insurance.

#### **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.



# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 2. Deposits with Financial Institutions (continued)

#### 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, 2023:

	Level 1	Level 2	Level 3	Total
Government Mutual Funds	\$ 27,258,801	\$ -	\$ -	\$ 27,258,801
Certificates of deposit	55,582	-	-	55,582
Total	\$ 27,314,383	\$ -	\$ -	\$ 27,314,383

### 3. Restricted Assets

Restricted accounts consists of the following:

As Of December 31,	2023	2022
Checking accounts:		
Capacity fees	\$ 128,935	\$ 24,056
Refurbishment and replacement	105,011	8,579
Depreciation reserve	51,419	45,289
Meter deposits	10,233	18,633
Debt service reserve	10,849	-
Total Restricted Checking Accounts	306,447	96,557
Certificate of deposit:		
Debt Service Reserve	-	60,703
Investments:		
Construction fund	\$ 16,845,869	\$ 12,753,754
Capacity fees	2,520,000	1,420,000
Meter deposits	1,130,000	1,000,000
American Rescue Plan Act funds	1,199,540	1,257,960
Refurbishment and replacement	850,000	450,000

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 3. Restricted Assets (continued)

As Of December 31,	2023	2022
Investments (continued):		
Bond Funds	\$ 492,930	\$ 417,865
Debt service reserve	50,001	1
Cost of issuance	2	-
Total Restricted Investments	23,090,365	17,301,602
Total Restricted Cash and Investments	\$ 23,396,812	\$ 17,458,862

**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).

**Cost of Issuance Fund** - to pay expenses of issuing 2023 bonds.

### 4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2023	Additions / Transfers	Retirements/ Transfers	December 31, 2023
Land	\$ 1,352,196	\$ -	\$ -	\$ 1,352,196
Buildings	1,878,728	-	-	1,878,728
Contributed property	31,820,523	4,899,176	-	36,719,699
Distribution and collection system	41,709,610	1,663,898	-	43,373,508
Machinery and equipment	1,494,892	188,589	-	1,683,481
Office furniture and fixtures	353,079	-	-	353,079
Construction in process	1,395,426	4,687,027	1,598,842	4,483,611
Total Capital Assets	80,004,454	11,438,690	1,598,842	89,844,302
Less: Accumulated depreciation	19,663,065	2,271,363	-	21,934,428
Capital Assets, Net	\$ 60,341,389	\$ 9,167,327	\$ 1,598,842	\$ 67,909,874

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 4. Capital Assets (continued)

<b>As Of</b>	<b>January 1, 2022</b>	<b>Additions / Transfers</b>	<b>Retirements/ Transfers</b>	<b>December 31, 2022</b>
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
<b>Total Capital Assets</b>	<b>68,393,623</b>	<b>13,693,984</b>	<b>2,083,153</b>	<b>80,004,454</b>
<b>Less: Accumulated depreciation</b>	<b>17,480,485</b>	<b>2,182,580</b>	<b>-</b>	<b>19,663,065</b>
<b>Capital Assets, Net</b>	<b>\$ 50,913,138</b>	<b>\$ 11,511,404</b>	<b>\$ 2,083,153</b>	<b>\$ 60,341,389</b>

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 years ended December 31, 2023 and 2022 was \$4,899,176 and \$7,692,012, respectively.

Construction in progress is for the following:

<b>Project</b>	<b>Balance at 12/31/23</b>	<b>Balance at 12/31/22</b>	<b>Total (Estimated) Cost</b>	<b>Estimated Completion</b>
Southern Water Tower	\$ 4,403,131	\$ 23,716	18,400,000	2026
Northwest Sewer Project	80,480	80,480	20,000,000	2027
24" Main Line Extension 72 Tower	-	1,042,040	1,100,460	complete
Tower Dome Replacement	-	249,191	498,382	complete
<b>Total</b>	<b>\$ 4,483,611</b>	<b>\$ 1,395,427</b>	<b>\$ 1,598,842</b>	

The southern water tower project is being funded with the Series 2022-A, 2022-B, and 2023 Water and Sewer Improvement Revenue Bonds (see Note 6 for project description).

The northwest sewer project is for a new lift station, interceptor and force main. The engineers are supposed to start work on the design of the project in 2024. The Commission is currently evaluating different options to secure funding for this project, but has not started any formal application processes. The project is still in the early stages.

The 24" Main Extension 72 tower project was 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 included a project to tie-in the two lines along Ginn Road and S. Main Street.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 4. Capital Assets (continued)

The tower dome replacement project was to repair damage caused by an ice storm. The total cost of the project was \$498,832 which, minus the deductible, was covered by insurance. The Commission received \$234,348 and \$276,425 of insurance proceeds during the years ended December 31, 2023 and 2022, respectively.

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 \$10,487 and \$70,081 in revenue during the years ended December 31, 2023 and 2022, respectively, from ARDOT for this project.

### 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 three year leases expiring in June 2026 and charge a fixed monthly rate. Additional amounts may be charged if usage exceeds certain limits. 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 Commission incurred approximately \$3,371 and \$1,361 of variable expenses related to the lease during the years ended December 31, 2023 and 2022, respectively. The Commission also pays sales tax on equipment rental leases. This is expensed as equipment rental as the amounts are paid and totaled \$20,434 and \$4,530 for the years ended December 31, 2023 and 2022, respectively.

Right-to-use assets consist of the following:

	Construction Equipment	Office Equipment	Total
<b>As of December 31, 2023</b>			
Right-to-use assets	\$ 159,239	\$ 17,572	\$ 176,811
Less: accumulated amortization	(30,963)	(8,605)	(39,568)
Right-to-use assets, net	128,276	8,967	137,243
<b>As of December 31, 2022</b>			
Right-to-use assets	\$ 39,501	\$ 17,572	\$ 57,073
Less: accumulated amortization	(36,462)	(4,304)	(40,766)
Right-to-use assets, net	3,039	13,268	16,307

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 5. Right-to-Use Lease Assets and Lease Liabilities (continued)

Future payments on lease liabilities are as follows:

December 31,	Principal	Interest	Total
2024	\$ 55,967	\$ 6,973	\$ 62,940
2025	58,946	3,625	62,571
2026	29,923	508	30,431
Total	\$ 144,836	\$ 11,106	\$ 155,942

### 6. Long-Term Debt

On November 16, 2023, the City issued Water and Sewer Improvement Revenue Bonds Series 2023 in the amounts of \$7,000,000. The Bonds were issued as additional funding for betterments and improvements to the water and sewer system funded with the Series 2022 bonds as discussed below.

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.

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

As of December 31,	2023	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.	\$ 849,046	\$ 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.	8,245,000	8,485,000

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 6. Long-Term Debt (continued)

As of December 31,	2023	2022
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.	13,745,000	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.	3,885,000	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.	8,970,000	9,300,000
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	3,530,000

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 6. Long-Term Debt (continued)

As of December 31,	2023	2022
Water and Sewer Improvement Revenue Bonds, Series 2023 - dated November 16, 2023 in the amount of \$7,000,000 as additional funding for improvements to water and sewer system (see projects detailed in Series 2022-A bonds). Principal payments are made annually ranging from \$215,000 to \$510,000. Interest payments are made semi-annually at 4.34%. The bonds mature in 2043 and are secured by revenues of the water and sewer system.	7,000,000	-
Total	46,224,046	40,442,879
Less: Current maturities	1,459,854	1,218,822
Long-term debt	44,764,192	39,224,057
Plus: unamortized bond premium	127,078	133,227
Less: unamortized bond discount	(155,163)	(162,099)
Long-Term Debt	\$ 44,736,107	\$ 39,195,185

Debt is scheduled to mature as follows:

December 31,	Direct Placement		Direct Borrowings	
	Principal	Interest	Principal	Interest
2024	\$ 1,435,000	\$ 1,660,691	\$ 24,854	\$ 35,614
2025	1,485,000	1,602,122	25,931	34,537
2026	1,540,000	1,551,875	27,055	33,413
2027	1,600,000	1,501,450	28,228	32,240
2028	1,645,000	1,448,805	29,451	31,017
2029-2033	9,120,000	6,367,334	167,544	134,796
2034-2038	10,850,000	4,619,605	207,135	95,205
2039-2043	13,025,000	2,455,598	256,081	46,259
2044-2046	4,675,000	392,006	82,767	38,169
Total	\$ 45,375,000	\$ 21,599,486	\$ 849,046	\$ 481,250

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, 2023 AND 2022

### 7. Activity of Long-Term Liabilities

Activity of long-term liabilities consists of the following:

As Of	January 1, 2023	Additions	Retirements	December 31, 2023	Due Within One Year
USDA	\$ 872,879	\$ -	\$ 23,833	\$ 849,046	\$ 24,854
2014 Bonds	8,485,000	-	240,000	8,245,000	245,000
2018 Bonds	14,215,000	-	470,000	13,745,000	480,000
2021 Bonds	4,040,000	-	155,000	3,885,000	155,000
2022-A Bonds	9,300,000	-	330,000	8,970,000	340,000
2022-B Bonds	3,530,000	-	-	3,530,000	-
2023 Bonds	-	7,000,000	-	7,000,000	215,000
Lease liabilities	16,709	159,239	31,112	144,836	55,967
<b>Total</b>	<b>\$ 40,459,588</b>	<b>\$ 7,159,239</b>	<b>\$ 1,249,945</b>	<b>\$ 46,368,882</b>	<b>\$ 1,515,821</b>

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
<b>Total</b>	<b>\$ 28,527,795</b>	<b>\$ 13,000,000</b>	<b>\$ 1,068,207</b>	<b>\$ 40,459,588</b>	<b>\$ 1,225,935</b>

### 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 \$6,936 and \$5,402 for the years ended December 31, 2023 and 2022, respectively, 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 both years ended December 31, 2023 and 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.



# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 9. Bond Covenants

The Commission's bond ordinances contain 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 years ended December 31, 2023 and 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 years ended December 31, 2023 and 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 years ended December 31, 2023 and 2022, the Commission received \$250,989 and \$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 Commission 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 \$2,010,518 and \$1,832,940 in capacity fees during the years ended December 31, 2023 and 2022, respectively.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 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.

### 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 years ended December 31, 2023 and 2022, the Commission paid \$1,671,278 and \$1,632,410, respectively, 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.

# CENTERTON WATERWORKS AND SEWER COMMISSION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

### 15. Retirement Plan (continued)

On behalf of each participant, the Commission may make a discretionary contribution to the Plan. During the years ended December 31, 2023 and 2022, the Commission matched 7.5% of each employee's compensation which totaled \$116,758 and \$86,818, respectively.

### 16. Transfers

The Commission received the following transfers:

<b>Year Ended December 31,</b>	<b>2023</b>	<b>2022</b>
City of Centerton	\$ -	\$ 1,300,000
Benton County	-	1,000,000
<b>Total transfers</b>	<b>\$ -</b>	<b>\$ 2,300,000</b>

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).

Benton County transferred \$1,000,000 of American Rescue Plan Act funds to the Commission for a new water line on Pumpkin Hollow Road. The Commission decided not to proceed with the project and is working with the County to determine the best usage of the funds.

### 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, 2023 through May 22, 2024, 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, 2023**

	Water	Sewer	Total
<b>Operating Revenue</b>			
Water sales, net of bad debts	\$ 6,267,804	\$ -	\$ 6,267,804
Sewer revenue	-	4,877,469	4,877,469
Capacity fees	1,207,588	802,930	2,010,518
Operating services and fees	298,817	266,739	565,556
<b>Total Operating Revenue</b>	<b>7,774,209</b>	<b>5,947,138</b>	<b>13,721,347</b>
<b>Operating Expenses</b>			
Bank charges	30,485	-	30,485
Bill processing	37,735	27,325	65,060
Bore expenses	24,378	-	24,378
Depreciation	1,315,493	994,173	2,309,666
Employee benefits	223,888	160,520	384,408
Equipment lease expense	11,851	8,583	20,434
Fuel expense	26,991	18,678	45,669
Insurance	50,685	28,611	79,296
Licenses, dues, and fees	4,809	3,378	8,187
Office supplies	10,211	7,338	17,549
Payroll taxes	80,299	58,148	138,447
Postage and printing	1,756	1,041	2,797
Miscellaneous	5	89	94
Other operating expenses	133,514	106,737	240,251
Professional fees	94,462	166,426	260,888
Repairs and replacements	1,932	107,843	109,775
Salaries and wages	1,040,023	754,996	1,795,019
Sewer treatment services	-	1,671,278	1,671,278
Software	58,110	19,916	78,026
Uniforms	20,165	15,261	35,426
Utilities and telephone	99,543	120,420	219,963
Vehicle expenses	26,076	8,008	34,084
Water meters	290,190	-	290,190
Water purchased	3,052,055	-	3,052,055
<b>Total Operating Expenses</b>	<b>6,634,656</b>	<b>4,278,769</b>	<b>10,913,425</b>
<b>Net Income From Operations</b>	<b>1,139,553</b>	<b>1,668,369</b>	<b>2,807,922</b>
<b>Other Income (Expenses)</b>			
Interest income	952,937	78,802	1,031,739
Reimbursement	234,348	-	234,348
ARDOT Reimbursement	-	10,487	10,487
Other revenues	24,109	-	24,109
Loss on inventory disposal	(21,080)	-	(21,080)
Interest expense	(778,875)	(631,855)	(1,410,730)
Bond issuance costs	(145,080)	-	(145,080)
Trustee fees	(12,961)	-	(12,961)
<b>Total Other Expenses</b>	<b>253,398</b>	<b>(542,566)</b>	<b>(289,168)</b>
<b>Change in Net Position</b>	<b>\$ 1,392,951</b>	<b>\$ 1,125,803</b>	<b>\$ 2,518,754</b>

See independent auditor's report.

# 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
<b>Operating Revenue</b>			
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
<b>Total Operating Revenue</b>	<b>7,433,955</b>	<b>5,531,542</b>	<b>12,965,497</b>
<b>Operating Expenses</b>			
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
<b>Total Operating Expenses</b>	<b>5,871,659</b>	<b>3,927,868</b>	<b>9,799,527</b>
<b>Net Income From Operations</b>	<b>1,562,296</b>	<b>1,603,674</b>	<b>3,165,970</b>
<b>Other Income (Expenses)</b>			
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)
<b>Total Other Expenses</b>	<b>(368,971)</b>	<b>(581,562)</b>	<b>(950,533)</b>
<b>Change in Net Position</b>	<b>\$ 1,193,325</b>	<b>\$ 1,022,112</b>	<b>\$ 2,215,437</b>

See independent auditor's report.

***OTHER INFORMATION***

# CENTERTON WATERWORKS AND SEWER COMMISSION

## SCHEDULE OF CUSTOMER COUNTS, VOLUMES, AND RATES

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### FOR THE YEAR ENDED DECEMBER 31, 2023

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Water customers	10,568
Sewer customers	8,146
Gallons purchased	1,090,060,000
Gallons billed	638,036,470

#### Water Rates

Inside City Residential	\$20.00 - \$1,066 base plus \$5.30 per thousand thereafter
Outside City Residential	\$25.00 - \$1,333 base plus \$5.60 per thousand thereafter
Double Residence	\$50.25 base plus \$5.60 per thousand thereafter
All commercial	\$34.50 - \$1,840 base plus \$4.10 per thousand gallons 1,000 - 99,999 \$3.90 per thousand gallons 100,000 - 499,999 \$3.80 per thousand gallons over 499,999

#### 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
Outside City *	\$18.18 - \$970 base plus \$9.08 per thousand gallons 1,000 - 299,999 \$9.66 per thousand gallons over 300,000
Inside City (no water)	\$42.19 per month
Outside City (no water)	\$49.19 per month

\* 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***

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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, 2023, and the related notes to the financial statements, which collectively comprise the System's financial statements, and have issued our report thereon dated May 22, 2024.

**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**  
**May 22, 2024**