

**CENTERTON WATERWORKS &
SEWER COMMISSION
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

CENTERTON WATERWORKS & SEWER COMMISSION
DECEMBER 31, 2019 AND 2018
CONTENTS

	Page
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
Statements of Net Position.....	11
Statements of Revenue, Expenses, and Changes in Net Position.....	13
Statements of Cash Flows	15
Notes to Financial Statements	17
SUPPLEMENTARY INFORMATION	
Schedules of Customer Counts and Volumes.....	29
Schedule of Water and Sewer Rates.....	30
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 <i>GOVERNMENT AUDITING STANDARDS</i>	31



INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Centerton Waterworks & Sewer Commission
Centerton, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the **Centerton Waterworks & Sewer Commission** (the Commission) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Commission's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements 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 Commission's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Commission's basic financial statements. The supplementary information presented on pages 29 and 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated May 29, 2020 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and

compliance and the results of that testing, and not to provide an opinion on the 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 Commission's internal control over financial reporting and compliance.

The logo for Landmark PLC Certified Public Accountants. The word "Landmark" is written in a large, elegant, cursive script. To its right, "PLC" is written in a smaller, bold, sans-serif font. Below "Landmark" and "PLC", the words "Certified Public Accountants" are written in a smaller, bold, sans-serif font.

Rogers, Arkansas
May 29, 2020

**CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

Overview

The Commission continued its record of successful operation in 2019. Our City and the surrounding rural area we serve continues to experience a growing 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 operation and administrative efficiency.

Noteworthy achievements in 2019 were:

- The construction of the expansion of the Decatur Wastewater Treatment plant was completed on schedule and it was fully operational in March 2019. It was anticipated that during 2020 the plant will reach the threshold to begin planning for additional treatment capacity.
- Our customer service staff performed excellently throughout the year as our continued customer growth necessitated the purchase of a new billing system. After training, the staff operated the parallel billing systems during the last quarter of the year to prove accuracy of the new system.
- Our field operations staff continued to execute an aggressive program of preventive maintenance, making timely identification and repair of leaks and further identification and correction of sewer infiltration and inflow.
- We began three major construction projects during the year: a 3,000,000 gallon elevated water storage tank; a lift station, gravity main and additional force mains as identified as Phase One of our planned Southwest Sewer expansion; and an additional 1,000,000 gallon sewage retention structure. All projects are satisfactorily progressing and should be completed by the beneficial use dates. These construction projects are critical for our continued growth and compliance with service providers. When completed, our total water storage capacity will be about 4,750,000 million gallons, which meets our water supplier contract of maintaining a 24-hour storage capacity. Our average daily water purchase for the year was two million gallons in 2019. The additional sewage retention structure will bring our capacity to 1.35 million gallons. Our average daily flow for treatment was 0.9 million gallons in 2019.
- As a result of receiving an unsolicited bid for financial/banking services, the Commission made a Request for Proposals to the banks in the Centerton Area. The Commission received six proposals; two were considered fully responsive. The Commission selected a new primary banking service provider and an orderly plan of transition was being executed at year end.
- In April 2019, the Commission responded to a request from the City of Highfill for assistance managing and operating their water and wastewater treatment systems. Subsequently, we have entered into a long-term management and operations contract.

**CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

We continued to experience significant annual customer growth for both water and sewer. Our year-over-year growth in 2019 was 7% for water and 8% for sewer. Over the five-year period 2015-2019, our water customers have increased 31% and our sewer customers have increased 36%. Indications at year-end are that this growth trend will continue.

The water distribution and sewer collections 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 Commission continues to closely monitor the continued customer growth, both in numbers and volume of usage. We will be updating our five-year capital needs plan during the first quarter of 2020.

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 2019. Certain financial statements or portions of financial statements are highlighted and discussed below.

Assets

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 bonds proceeds held for construction in progress.

In recent years, the Commission has accumulated a sizable amount of unrestricted cash that allows us to undertake system expansion and improvements without the use of debt financing.

CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

	Year ended December 31,		
	2019	2018	2017
Assets			
Current and other	\$ 12,576,797	\$ 21,067,091	\$ 5,697,731
Capital	36,552,492	30,079,536	26,792,608
Total Assets	<u>\$ 49,129,289</u>	<u>\$ 51,146,627</u>	<u>\$ 32,490,339</u>
Liabilities			
Long-term debt	\$ 27,644,115	\$ 31,659,961	\$ 16,805,808
Other	1,765,874	1,886,672	1,512,085
Total Liabilities	<u>29,409,989</u>	<u>33,546,633</u>	<u>18,317,893</u>
Net Position			
Invested in capital assets, net of related debt	8,227,101	3,389,415	9,363,044
Restricted	7,891,179	10,311,599	1,262,681
Unrestricted	3,601,020	3,898,980	3,546,721
Total Net Position	<u>19,719,300</u>	<u>17,599,994</u>	<u>14,172,446</u>
 Total Liabilities and Net Position	 <u>\$ 49,129,289</u>	 <u>\$ 51,146,627</u>	 <u>\$ 32,490,339</u>

**CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

Outstanding Debt

The increased debt reflects our ever increasing need to expand our water distribution and sewer collections systems to the meet the demands of our increasing number of customers.

The following table displays the Commission's outstanding bonds for the last three years:

	Year ended December 31,		
	2019	2018	2017
USDA Rural Development	\$ 935,796	\$ 957,568	\$ 976,473
Farmers & Merchants Bank Stuttgart, Arkansas (Refunding Debt)	-	6,315,000	6,705,000
Farmers & Merchants Bank Stuttgart, Arkansas (Water & Sewer Construction Debt)	9,160,000	9,375,000	9,585,000
Farmers & Merchants Bank Stuttgart, Arkansas (Refunding and Construction Debt)	15,545,000	15,985,000	-
Farmers & Merchants Bank Stuttgart, Arkansas (Water & Sewer Construction Debt)	<u>2,600,000</u>	<u>-</u>	<u>-</u>
Total Bonds Outstanding, gross	<u>\$ 28,240,796</u>	<u>\$ 32,632,568</u>	<u>\$ 17,266,473</u>

Changes in Net Position

Total revenue for 2019 increased 6% over 2018. While our water revenue increased only slightly at 0.8%; our sewer revenue increased 9.9%. The relatively flat increase in water revenue accompanied with a significantly larger sewer revenue increase are signs that our rates for service may need adjustments. Overall, the revenue growth reflects our growth in customers and volume of usage.

Total expenses are up 3.5% over 2018. We believe that this modest growth reflects the Commission's continued efforts to carefully manage growth in numbers of employees and heavily focus on the preventative maintenance of our water and sewer systems.

**CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

During 2019, employee compensation and benefits increased 37.3% over 2018. A large part of this change came from a revised employee benefits package that makes us more competitive in the Northwest Arkansas job market.

The Commission has directed our Engineer Consultant to conduct a rates for service study in 2020. While we believe our current rates will continue to provide adequate revenue to meet all the financial obligations of the Commission, we believe the time is appropriate for another study and insure the service rate equity. Continued growth in customers often obscures the need for a rates for service study to determine rate equity. However, the commission has identified long-range capital needs that will probably exceed our self-financing capacity and require additional debt financing.

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

CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

	Year ended December 31,		
	2019	2018	2017
Revenues			
Water	\$ 3,828,921	\$ 3,799,260	\$ 3,369,970
Sewer	3,276,161	2,981,172	2,754,077
Miscellaneous	486,081	541,858	423,806
Rental income	-	5,306	-
Gain on disposal of asset	-	-	8,143
Interest income	218,348	35,967	9,847
Total Revenues	<u>7,809,511</u>	<u>7,363,563</u>	<u>6,565,843</u>
Expenses			
Water purchased	2,057,546	2,522,509	1,494,203
Sewer treatment service	1,327,527	1,105,278	1,039,804
Employee compensation and benefits	1,152,069	838,668	692,773
Bad debts	16,480	4,740	-
Fuel	39,250	-	-
Professional services	145,001	183,088	105,893
Utilities and telephone	161,212	100,245	91,444
Repairs and maintenance	198,151	331,709	160,824
Vehicles	20,445	43,119	29,668
Insurance, licenses, dues and fees	20,878	19,031	20,423
Administrative supplies, postage and printing	48,673	32,907	28,908
Miscellaneous and rental	37,923	789	1,366
Depreciation	1,373,518	1,282,357	1,219,528
Bond issuance costs	46,095	209,769	-
Interest	892,389	604,917	590,098
Total Expenses	<u>7,537,157</u>	<u>7,279,126</u>	<u>5,474,932</u>
Excess of revenues over expenditures before special items	272,354	84,437	1,090,911
Capital contributions	<u>1,846,952</u>	<u>3,343,111</u>	<u>3,094,581</u>
Change in net position	<u>\$ 2,119,306</u>	<u>\$ 3,427,548</u>	<u>\$ 4,185,492</u>

**CENTERTON WATERWORKS & SEWER COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018**

Capital Assets

Customer growth also brings growth in capital assets to serve those customers. During 2019, the Commission accepted \$1,846,952 in capital donations from developers. At year end there was over \$500,000 in additional donations pending final inspections and acceptance.

The following table summarizes capital assets for the last three years:

	Year ended December 31,		
	2019	2018	2017
Land	\$ 1,176,296	\$ 1,176,296	\$ 775,916
Buildings	453,639	438,229	438,229
Construction in progress	5,633,253	73,987	-
Contributed property	17,406,244	15,559,292	12,216,181
Distribution and collection system	24,614,588	24,456,852	23,757,812
Machinery and equipment	1,175,672	1,036,939	991,802
Office furniture and fixtures	225,598	97,221	89,590
	<u>50,685,290</u>	<u>42,838,816</u>	<u>38,269,530</u>
Less accumulated depreciation	<u>(14,132,798)</u>	<u>(12,759,280)</u>	<u>(11,476,923)</u>
Capital assets, net	<u><u>\$ 36,552,492</u></u>	<u><u>\$ 30,079,536</u></u>	<u><u>\$ 26,792,607</u></u>

The Commission remains committed to its goal of providing safe drinking water and sanitary wastewater treatment to the citizens of Centerton and our Water Service Area. As such, we annually review and adopt a long-range Capital Needs Plan. Capital needs identified are categorized as: capacity improvements, efficiency improvements, and growth accommodation. Capital needs are also prioritized as to when they will be required. At December 31 2019, the Commission had begun the process to design and construct a new administrative building that will improve security, employee efficiency, and employee safety.

CENTERTON WATERWORKS & SEWER COMMISSION
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,144,930	\$ 3,437,908
Accounts receivable, net of allowance for doubtful accounts of \$42,993 and \$26,513, respectively	67,241	160,358
Inventory	<u>161,917</u>	<u>67,464</u>
Total Current Assets	<u>3,374,088</u>	<u>3,665,730</u>
RESTRICTED ASSETS		
Cash	8,817,894	16,620,018
Certificates of deposit	<u>60,630</u>	<u>517,808</u>
Total Restricted Assets	<u>8,878,524</u>	<u>17,137,826</u>
PROPERTY AND EQUIPMENT		
Land	1,176,296	1,176,296
Buildings	453,639	438,229
Construction in progress	5,633,253	73,987
Contributed property	17,406,244	15,559,292
Distribution and collection system	24,614,588	24,456,852
Machinery and equipment	1,175,672	1,036,939
Office furniture and fixtures	<u>225,598</u>	<u>97,221</u>
	50,685,290	42,838,816
Less accumulated depreciation	<u>14,132,798</u>	<u>12,759,280</u>
	<u>36,552,492</u>	<u>30,079,536</u>
OTHER ASSETS		
Prepaid expenses	169,590	124,482
Certificates of deposit	<u>154,595</u>	<u>139,053</u>
Total other assets	<u>324,185</u>	<u>263,535</u>
Total Assets	<u><u>\$ 49,129,289</u></u>	<u><u>\$ 51,146,627</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
(Payable From Current Assets)		
Accounts payable	\$ 46,541	\$ 3,320
Accrued expenses		
Water surcharges payable	40,698	22,918
Sales tax payable	10,014	4,047
Current portion of long-term debt	<u>19,276</u>	<u>18,475</u>
Total Current Liabilities (Payable From Current Assets)	<u>116,529</u>	<u>48,760</u>
CURRENT LIABILITIES		
(Payable From Restricted Assets)		
Current portion of long-term debt	662,000	1,045,000
Accrued interest payable	147,398	147,398
Customer deposits	<u>839,947</u>	<u>645,514</u>
Total Current Liabilities (Payable From Restricted Assets)	<u>1,649,345</u>	<u>1,837,912</u>
LONG-TERM DEBT, NET	<u>27,644,115</u>	<u>31,659,961</u>
Total Liabilities	<u>29,409,989</u>	<u>33,546,633</u>
NET POSITION		
Invested in capital assets, net of related debt	8,227,101	3,389,415
Restricted	7,891,179	10,311,599
Unrestricted	<u>3,601,020</u>	<u>3,898,980</u>
Total Net Position	<u>19,719,300</u>	<u>17,599,994</u>
Total Liabilities and Net Position	<u>\$ 49,129,289</u>	<u>\$ 51,146,627</u>

See Independent Auditor's Report and Notes to Financial Statements.

CENTERTON WATERWORKS & SEWER COMMISSION
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUE		
Water	\$ 3,828,921	\$ 3,799,260
Sewer	3,276,161	2,981,172
Charges and fees	461,591	490,520
Rental income	-	5,306
Miscellaneous income	24,490	51,338
	<hr/>	<hr/>
Total Operating Revenue	7,591,163	7,327,596
	<hr/>	<hr/>
OPERATING EXPENSES		
Bad debts	16,480	4,740
Contract labor	-	346
Depreciation	1,373,518	1,282,357
Employee benefits	224,224	155,195
Fuel	39,250	-
Insurance	15,348	12,304
Licenses, dues and fees	5,530	6,727
Miscellaneous	37,923	789
Office supplies and expense	47,063	29,053
Payroll taxes	72,996	53,758
Postage and delivery	1,442	1,570
Printing	168	2,284
Professional fees	145,001	183,088
Repairs and maintenance	198,151	331,363
Salaries	846,804	618,906
Sewer treatment services	1,327,527	1,105,278
Uniforms	8,045	10,809
Utilities and telephone	161,212	100,245
Vehicle expenses	20,445	43,119
Water purchased and operating supplies	2,057,546	2,522,509
	<hr/>	<hr/>
Total Operating Expenses	6,598,673	6,464,440
	<hr/>	<hr/>
OPERATING INCOME	992,490	863,156
	<hr/>	<hr/>

See Independent Auditor's Report and Notes to Financial Statements.

	2019	2018
OTHER REVENUE (EXPENSES)		
Interest income	218,348	35,967
Bond issuance costs	(46,095)	(209,769)
Interest expense	<u>(892,389)</u>	<u>(604,917)</u>
Total Other Revenue (Expenses)	<u>(720,136)</u>	<u>(778,719)</u>
CHANGE IN NET POSITION BEFORE CAPITAL CONTRIBUTIONS	272,354	84,437
CAPITAL CONTRIBUTIONS	<u>1,846,952</u>	<u>3,343,111</u>
CHANGE IN NET POSITION	2,119,306	3,427,548
NET POSITION, BEGINNING OF YEAR	<u>17,599,994</u>	<u>14,172,446</u>
NET POSITION, END OF YEAR	<u><u>\$ 19,719,300</u></u>	<u><u>\$ 17,599,994</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

CENTERTON WATERWORKS & SEWER COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers		
Water	\$ 3,879,102	\$ 3,755,024
Sewer	3,319,097	2,946,461
Cash received from service charges, penalties, and other operating revenue	486,081	547,164
Payments for water	(2,056,929)	(2,521,892)
Payments for sewer treatment services	(1,327,527)	(1,105,278)
Payments for salaries and benefits	(1,144,024)	(827,859)
Payments to suppliers for goods and services	<u>(529,727)</u>	<u>(718,088)</u>
 Net Cash From Operating Activities	 <u>2,626,073</u>	 <u>2,075,532</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(5,999,523)	(1,226,174)
Interest paid on long-term debt	(898,662)	(608,694)
Bond issuance costs	(46,095)	(209,769)
Prepaid bond insurance	(45,108)	(124,482)
Proceeds from bond issuance	2,642,000	15,919,049
Principal payments on long-term debt	<u>(7,033,772)</u>	<u>(618,905)</u>
Net Cash From (Used For) Capital and Related Financing Activities	<u>(11,381,160)</u>	<u>13,131,025</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in certificates of deposit	441,636	(7,918)
Interest income	<u>218,348</u>	<u>33,471</u>
 Net Cash From Investing Activities	 <u>659,984</u>	 <u>25,553</u>
 NET CHANGE IN CASH	 (8,095,103)	 15,232,110
 CASH, BEGINNING OF YEAR	 <u>20,057,926</u>	 <u>4,825,816</u>
 CASH, END OF YEAR	 <u><u>\$ 11,962,823</u></u>	 <u><u>\$ 20,057,926</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating Income	<u>\$ 992,490</u>	<u>\$ 863,156</u>
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	1,373,518	1,282,357
Change in:		
Accounts receivable	93,117	(78,947)
Inventory	(94,453)	74,097
Accounts payable	43,221	(121,524)
Accrued expenses	23,747	4,018
Customer deposits	<u>194,433</u>	<u>52,375</u>
Total adjustments	<u>1,633,583</u>	<u>1,212,376</u>
Net Cash From Operating Activities	<u><u>\$ 2,626,073</u></u>	<u><u>\$ 2,075,532</u></u>

See Independent Auditor's Report and Notes to Financial Statements.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Centerton Waterworks & Sewer Commission (the Commission) is an enterprise fund of the City of Centerton, Arkansas (the City). Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) departments for which the primary government is financially accountable, and (3) other departments for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14 have been considered. These financial statements represent only the Commission's funds and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Separately issued financial statements of the City, primary government other than the Commission, may be obtained at the City of Centerton, Arkansas city offices.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements of the Commission into one fund type as follows:

Proprietary Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Commission follows an accrual basis of accounting. Under this system, revenues are recognized when they are earned and expenses are recognized when they are incurred.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

In accordance with GASB Statement Number 62, the Commission applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Buildings	7 – 50 years
Contributed property	30 – 50 years
Distribution and collection system	5 – 50 years
Machinery and equipment	5 – 15 years
Office furniture and fixtures	5 – 10 years

Long-Lived Assets

FASB Accounting Standards Codification (Codification) Topic Property, Plant and Equipment, Section Subsequent Measurement requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the Commission's reported earnings, financial condition or cash flows.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value. At December 31, 2019 and 2018, inventory consisted of items such as water meters, pipes, valves, etc.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Current Accounting Developments

The Commission is currently evaluating the impact of GASB standards as they are issued. The Commission does not expect implementation to have a significant impact on the financial statements, if any.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Accounts Receivable

The Commission has provided an allowance for doubtful accounts as of December 31, 2019 and 2018. The allowance is based on management's estimate of the overall collectability of accounts receivable, considering historical losses, economic conditions, and knowledge of individual customers. Based on these same factors, individual accounts are charged off against the allowance when management determines those individual accounts are uncollectible. Credit extended to customers is uncollateralized, but a deposit is required. These deposits are applied to past-due customer accounts before the account is charged off against the allowance. Past-due status is based on contractual terms. Past-due accounts are charged a 10% late fee if not paid by the 15th day following the original billing date, and water service is disconnected if payment is not received within 30 days of the original billing date.

Capitalization of Interest Costs

The Commission capitalizes interest costs as part of the total acquisition costs of construction related to the addition to and/or improvement of facilities. Interest costs capitalized include only the interest incurred during the construction period on debt used to finance the project. The interest capitalization period commences with the first expenditure for the project and continues until the constructed project is substantially complete and ready for its intended use, at which time interest capitalization ceases. During the years ended December 31, 2019 and 2018, \$99,098 and \$-0- interest was capitalized, respectively.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditor's Report.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Unrestricted – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

NOTE 2: CONCENTRATION OF CREDIT RISK

The Commission provides water and sewer services to residential, farm, commercial, and industrial customers in Centerton, Arkansas and surrounding areas. The Commission operates from its primary facilities in Centerton, Arkansas. The Commission grants unsecured credit to customers located in the vicinity of the operating location.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the Commission to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. At December 31, 2019, the Commission had deposits in five financial institutions consisting of approximately \$12,177,294 in deposit balances reported as cash in the Statements of Net Position, and approximately \$215,000 and \$657,000 in certificates of deposit reported as restricted assets and other assets, respectively, in the Statements of Net Position. Of these balances, approximately \$1,183,000 were FDIC insured and the remaining balances were collateralized by securities held by the bank in the Commission’s name or invested in U.S. securities.

NOTE 4: RESTRICTED ASSETS AND RESERVE REQUIREMENTS

Restricted cash and cash equivalents are held for specific purposes at December 31, 2019 and 2018 as follows:

	2019	2018
Meter deposits	\$ 853,263	\$ 649,303
Debt service reserve	60,630	372,052
Capitalized interest fund	239,741	238,616
2012 bond refunding	-	6,033,315
Construction fund	6,956,112	9,555,647
Depreciation and replacement reserves	768,778	288,893
	\$ 8,878,524	\$ 17,137,826

NOTE 5: DEFERRED COMPENSATION PLAN

The Commission sponsors a deferred compensation plan under Internal Revenue Code Section 457 covering eligible employees who have completed three months of continuous service. Effective September 1, 2005, the Commission matches 50% of employee contributions up to 3% of the employee’s compensation. The cost of such contributions to the Commission was \$48,300 and \$27,594 during the years ended December 31, 2019 and 2018, respectively.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6: CHANGES IN PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the years ended December 31, 2019 and 2018 follows:

	<u>Year Ended December 31, 2019</u>			
	<u>Balance January 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2019</u>
Land	\$ 1,176,296	\$ -	\$ -	\$ 1,176,296
Buildings	438,229	15,410		453,639
Construction in progress	73,987	5,559,266	-	5,633,253
Contributed property	15,559,292	1,846,952	-	17,406,244
Distribution and collection system	24,456,852	157,736	-	24,614,588
Machinery and equipment	1,036,939	138,733	-	1,175,672
Office furniture and fixtures	<u>97,221</u>	<u>128,377</u>	<u>-</u>	<u>225,598</u>
	42,838,816	7,846,474	-	50,685,290
Accumulated depreciation	<u>(12,759,280)</u>	<u>(1,373,518)</u>	<u>-</u>	<u>(14,132,798)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 30,079,536</u>	<u>\$ 6,472,956</u>	<u>\$ -</u>	<u>\$ 36,552,492</u>

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Year Ended December 31, 2018

	Balance January 1, 2018	Additions	Deductions	Balance December 31, 2018
Land	\$ 775,916	\$ 400,380	\$ -	\$ 1,176,296
Buildings	438,229	-	-	438,229
Construction in progress	-	73,987	-	73,987
Contributed property	12,216,181	3,343,111	-	15,559,292
Distribution and collection system	23,757,813	699,039	-	24,456,852
Machinery and equipment	991,802	45,137	-	1,036,939
Office furniture and fixtures	89,590	7,631	-	97,221
	<u>38,269,531</u>	<u>4,569,285</u>	-	<u>42,838,816</u>
Accumulated depreciation	<u>(11,476,923)</u>	<u>(1,282,357)</u>	-	<u>(12,759,280)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 26,792,608</u>	<u>\$ 3,286,928</u>	<u>\$ -</u>	<u>\$ 30,079,536</u>

NOTE 7: LONG-TERM DEBT

USDA Rural Development Revenue Bonds

In June 2005, the Commission issued \$1,161,000 in USDA Rural Development Revenue Bonds at an average rate of interest of 4.25% to finance the acquisition of an adjoining water system. The bond matures in fiscal year 2045 with principal payments due monthly. As of December 31, 2019 and 2018, the outstanding principal was \$935,796 and \$957,568 respectively. Debt service payments for 2019 for this bond were \$60,468.

Series 2012 Arkansas Water and Sewer Refunding Bonds

In December 2012, the Commission issued \$8,570,000 Water and Sewer Refunding Revenue Bonds (Series 2012) to (a) refund nine loans from the Arkansas Natural Resources Commission and one loan from USDA Rural Development which were previously issued to benefit the City's water and sewer system, (b) to fund a debt service reserve, and (c) to pay the costs associated with the issuance of the bonds.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Interest on the bonds will be payable on June 1 and December 1 of each year, beginning June 1, 2013. The interest rates on the bonds range from 1.0% to 4.0% per year. Principal will be payable on surrender of the bonds at the trust office of the trustee. The bonds were issued as fully registered, without coupons. Serial bonds will mature each year on December 1 of years 2013 through 2025. In December 2018, the 2012 Series Bonds were refinanced into the 2018 bond issued and the funds were refunded January 2019.

Series 2014 Water and Sewer Revenue Bonds

In September 2014, the Commission issued \$9,995,000 Water and Sewer Revenue Bonds (Series 2014) to (a) design and construct for the wastewater portion of the City's water and sewer system a wastewater transmission line to the City of Decatur, Arkansas' wastewater treatment plant and related improvements, (b) to fund capitalized interest, and (c) to pay the costs associated with the issuance of the bonds.

Interest on the bonds will be payable on February 1 and August 1 of each year beginning February 1, 2015. The interest rates on the bonds range from 2.0% to 4.0% per year. Principal will be payable on surrender of the bonds at the trust office of the trustee. The bonds were issued as fully registered, without coupons. Serial bonds will mature each year on August 1 of years 2016 through 2029. Term bonds will mature August 1 of years 2033, 2036, 2040, and 2045.

Series 2018 Water and Sewer Revenue Improvement and Refunding Bonds

In December 2018, the Commission issued \$15,985,000 Water and Sewer Revenue Improvement and Refunding Bonds (Series 2018) to (a) refund the Series 2012 Bonds, (b) construct certain improvements, and (c) pay the costs associated with the issuance of bonds.

Interest on the bonds will be payable on June 1 and December 1 of each year beginning June 1, 2019. The interest rate on the bonds range from 3.0% to 4.0% per year. Principal will be payable on surrender of the bonds at the trust office of the trustee. The bonds were issued as fully registered, without coupons. Serial bonds will mature each year on December 1 of years 2019-2034. Term bonds will mature December 1 of years 2038, 2040, and 2044.

Series 2019 Water and Sewer Revenue Improvement Bonds

In April 2019, the Commission issued \$2,642,000 Water and Sewer Revenue Improvement Bonds (Series 2019) at an average interest rate of 3.45% to finance the remaining costs of water and sewer improvements. The bonds mature in fiscal year 2044 with principal and interest payments due monthly.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Principal and interest maturities of the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
December 31,			
2020	\$ 681,276	\$ 990,860	\$ 1,672,136
2021	702,111	1,359,065	2,061,176
2022	717,983	1,337,681	2,055,664
2023	743,892	1,315,806	2,059,698
2024	759,841	1,292,907	2,052,748
2025-2029	4,238,938	6,027,803	10,266,741
2030-2034	5,183,644	4,429,319	9,612,963
2035-2039	6,576,602	3,685,971	10,262,573
2040-2044	7,995,533	1,514,211	9,509,744
2045	640,976	26,596	667,572
	<u>\$ 28,240,796</u>	<u>\$ 21,980,219</u>	<u>\$ 50,221,015</u>

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

Following is a summary of changes in long-term debt:

	<u>Balance December 31, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2019</u>	<u>Amounts Due Within One Year</u>
USDA Rural Development Revenue Bonds	\$ 957,568	\$ -	\$ 21,772	\$ 935,796	\$ 19,276
Refunding Revenue Bonds, Series 2012	6,315,000	-	6,315,000	-	-
Revenue Bonds, Series 2014	9,375,000	-	215,000	9,160,000	220,000
Revenue and Refunding Bonds, Series 2018	15,985,000	-	440,000	15,545,000	430,000
Revenue Bonds, Series 2019	-	2,642,000	42,000	2,600,000	12,000
Bonds payable, gross	32,632,568	2,642,000	7,033,772	28,240,796	681,276
Less discounts	(65,951)	-	-	(65,951)	-
Plus premiums	156,819	-	6,273	150,546	-
Bonds payable, net	<u>\$ 32,723,436</u>	<u>\$ 2,642,000</u>	<u>\$ 7,040,045</u>	<u>\$ 28,325,391</u>	<u>\$ 681,276</u>
	<u>Balance December 31, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2018</u>	<u>Amounts Due Within One Year</u>
USDA Rural Development Revenue Bonds	\$ 976,473	\$ -	\$ 18,905	\$ 957,568	\$ 18,475
Refunding Revenue Bonds, Series 2012	6,705,000	-	390,000	6,315,000	390,000
Revenue Bonds, Series 2014	9,585,000	-	210,000	9,375,000	215,000
Revenue Bonds, Series 2018	-	15,985,000	-	15,985,000	440,000
Bonds payable, gross	17,266,473	15,985,000	618,905	32,632,568	1,063,475
Less discounts	-	(65,951)	-	(65,951)	-
Plus premiums	163,092	-	6,273	156,819	-
Bonds payable, net	<u>\$ 17,429,565</u>	<u>\$ 15,919,049</u>	<u>\$ 625,178</u>	<u>\$ 32,723,436</u>	<u>\$ 1,063,475</u>

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8: RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in public entity risk pools. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The City, which the Commission is a part of, participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Municipal Property Program - This program covers insurable property and equipment, exclusive of motor vehicles and water vessels, which belong to or are in the care, custody or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of the depreciation or as agreed to by the participating city and program. Loss amounts payable will be reduced by the deductible amount of \$5,000. The City agrees to pay into the program each year a service charge established annually by the program administrator for property for which the City desires coverage.

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the city. Rates for the municipalities participating in this program are revised annually based on the cost experience of the particular city or group as determined by the Workers' Compensation Commission.

Municipal Vehicle Program

Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident, and \$25,000 for property damage per accident. The municipality shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the municipality.

Physical Damage - This program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$5,000 per occurrence. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for the covered property.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$250,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$1,000 deductible per occurrence.

NOTE 9: COMMITMENTS

The Commission was contractually obligated for three construction projects at December 31, 2019. The remaining amounts of the contracts are as follows at December 31, 2019:

Water Tower Project	\$ 1,615,957
Southern Sewer System	957,909
Sewage Retention Basin	<u>1,270,657</u>
	<u>\$ 3,844,523</u>

NOTE 10: SUBSEQUENT EVENTS

As of the date of the independent auditor's report, the COVID-19 pandemic has had an adverse impact on both domestic and global financial markets and operations. Management is unable to accurately predict how the COVID-19 pandemic will affect the results of the Commission's operations due to uncertainties surrounding the severity of the disease and the duration of the outbreak. However, it is presumed that Commission operations will be impacted.

CENTERTON WATERWORKS & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 11: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

	WATER DEPARTMENT	SEWER DEPARTMENT	TOTAL
Operating Revenue	\$ 4,199,605	\$ 3,391,558	\$ 7,591,163
Operating Expenses	3,835,383	2,763,290	6,598,673
Operating Income	364,222	628,268	992,490
Other Revenue (Expenses)	(90,237)	(629,899)	(720,136)
Capital Contributions	193,838	1,653,114	1,846,952
Change in Net Position	467,823	1,651,483	2,119,306
Beginning Net Position	7,920,281	9,679,713	17,599,994
Ending Net Position	8,388,104	11,331,196	19,719,300
Total Current Assets, Unrestricted	1,866,623	1,507,465	3,374,088
Total Restricted Assets	4,911,802	3,966,722	8,878,524
Property and Equipment	20,221,673	16,330,819	36,552,492
Other Assets	179,347	144,838	324,185
Total Assets	27,179,443	21,949,846	49,129,289
Total Current Liabilities, Unrestricted	64,467	52,062	116,529
Total Current Liabilities, Restricted	912,455	736,890	1,649,345
Total Long-Term Debt	15,293,356	12,350,759	27,644,115
Total Liabilities	16,270,277	13,139,712	29,409,989
Fixed Assets:			
Additions	4,340,849	3,505,625	7,846,474
Deletions	-	-	-
Depreciation	759,862	613,656	1,373,518
Working Capital	1,802,155	1,455,404	3,257,559
Net Cash From Operating Activities	1,452,804	1,173,269	2,626,073
Net Cash From Capital and Related Financing	(6,296,318)	(5,084,842)	(11,381,160)
Net Cash From Investing Activities	365,118	294,866	659,984
Net Change in Cash	(4,478,397)	(3,616,706)	(8,095,103)
Beginning Cash	11,096,503	8,961,423	20,057,926
Ending Cash	6,618,106	5,344,717	11,962,823

SUPPLEMENTARY INFORMATION

**CENTERTON WATERWORKS & SEWER COMMISSION
SCHEDULES OF CUSTOMER COUNTS AND VOLUMES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Water customers	<u>7,425</u>	<u>6,935</u>
Sewer customers	<u>5,228</u>	<u>4,807</u>
Gallons purchased for the year	<u>757,448,000</u>	<u>728,919,000</u>
Gallons billed for the year	<u>437,481,654</u>	<u>428,407,000</u>

See Independent Auditor's Report.

**CENTERTON WATERWORKS & SEWER COMMISSION
SCHEDULE OF WATER AND SEWER RATES
DECEMBER 31, 2019**

Water Rates

Inside City Residential	\$20.00 base plus \$4.65 per thousand gallons thereafter
Inside City Irrigation	\$20.00 base plus \$3.75 per thousand gallons thereafter
Outside City Residential	\$25.00 base plus \$4.95 per thousand gallons thereafter
Outside City Irrigation	\$25.00 base plus \$3.75 per thousand gallons thereafter (Includes within city limits of Bentonville, Bella Vista and Gravette)
Double Residence	\$50.25 base plus \$4.95 per thousand gallons thereafter
All Commercial	\$34.50 base plus \$3.45 per thousand gallons 1 - 99,999 \$3.25 per thousand gallons 100,000 - 499,999 \$3.15 per thousand gallons over 500,000 (Includes within city limits of Bentonville, Bella Vista and Gravette) (Includes Tax Exempt Accounts)

Sewer Rates

Sewer Inside City	\$16.76 base plus \$7.99 per thousand gallons 1,000-299,999 \$8.57 per thousand gallons over 300,000
Sewer Outside City**	\$18.18 base plus \$9.08 per thousand gallons 1,000-299,999 \$9.66 per thousand gallons over 300,000
Sewer Inside City (No Water)	\$42.19 per month
Sewer Outside City	\$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.



**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 & Sewer Commission
Centerton, Arkansas

We have audited, 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, the financial statements of **Centerton Waterworks & Sewer Commission** (the “Commission”), which comprise the statements of net position as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated May 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) to determine the 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 Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

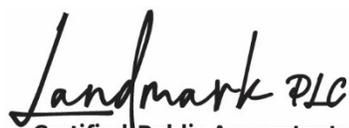
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Certified Public Accountants

Rogers, Arkansas
May 29, 2020