

**CITY OF PEA RIDGE WATERWORKS
AND SEWER SYSTEM**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023



CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM
DECEMBER 31, 2024 AND 2023

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-4
Financial Statements	
Statements of Net Position.....	5
Statements of Revenue, Expenses, and Changes in Net Position.....	6
Statements of Cash Flows.....	7-8
Notes to Financial Statements.....	9-29
Required Supplementary Information	
Required Supplemental Information for Cost-Sharing Employer Plans.....	30-31
Supplementary Information	
Statements of Revenue, Expenses, and Changes in Net Position by Department.....	32-33
Schedules of Bonds Outstanding.....	34-35
Customer Counts, Volumes and Rates.....	36
Additional Required 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 <i>Government Auditing Standards</i>	37-38



Independent Auditor's Report

To the Honorable Mayor and City Council
City of Pea Ridge Waterworks and Sewer System
Pea Ridge, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Pea Ridge Waterworks and Sewer System, as of and for the years ended December 31, 2024 and 2023, 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 City of Pea Ridge Waterworks and Sewer System as of December 31, 2024 and 2023, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Pea Ridge Waterworks and Sewer System 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 Pea Ridge, Arkansas, as of December 31, 2024 and 2023, 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 City of Pea Ridge Waterworks and Sewer System'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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the supplemental information for employer pension plans on pages 30-31 be presented to supplement the 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 statements of revenues, expenses and changes in net position by department and schedules of bonds outstanding are presented for purposes of additional analysis and are 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 and schedules of bonds outstanding are 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 customer counts, volumes and rates schedule, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025, on our consideration of the City of Pea Ridge Waterworks and Sewer System’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 City of Pea Ridge Waterworks and Sewer System’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 City of Pea Ridge Waterworks and Sewer System’s internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
April 30, 2025

FINANCIAL STATEMENTS

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,630,917	\$ 1,274,774
Restricted cash and cash equivalents	2,728,126	1,842,657
Restricted certificates of deposit	94,137	93,821
Accounts receivable, net	420,515	426,802
Inventory	218,878	231,571
Prepaid insurance	39,178	19,412
Total Current Assets	5,131,751	3,889,037
Noncurrent Assets		
Right-to-use lease assets, net	5,715	15,112
Capital assets, net	21,350,328	14,536,265
Total Noncurrent Assets	21,356,043	14,551,377
Total Assets	26,487,794	18,440,414
Deferred Outflows of Resources		
Deferred amount on refunding of debt, net of amortization	50,424	52,717
Deferred outflows of resources related to pension	796,527	68,065
Total Deferred Outflows of Resources	846,951	120,782
Total Assets and Deferred Outflows	\$ 27,334,745	\$ 18,561,196
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 370,592	\$ 239,457
Sales tax payable	14,162	16,875
Wages payable	81,035	67,205
Accrued payroll taxes and benefits	2,120	20,022
Accrued interest	31,324	32,386
Meter deposits payable	113,183	122,364
Right-to-use lease liability	-	17,397
Current maturity of bonds payable	360,011	357,040
Total Current Liabilities	972,427	872,746
Long-Term Liabilities		
Bonds payable, plus unamortized bond premium	12,020,779	12,382,345
Net pension liability	952,008	-
Total Long-Term Liabilities	12,972,787	12,382,345
Total Liabilities	13,945,214	13,255,091
Deferred Inflows of Resources		
Deferred inflows related to pension	38,923	-
Total Deferred Inflows of Resources	38,923	-
Net Position		
Net investment in capital assets	9,025,678	1,847,312
Restricted	2,678,229	1,803,501
Unrestricted	1,646,701	1,655,292
Total Net Position	13,350,608	5,306,105
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 27,334,745	\$ 18,561,196

See accompanying notes to financial statements.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2024	2023
Operating Revenue		
Water revenues, less bad debts	\$ 2,419,951	\$ 2,071,537
Water service fees	403,543	227,198
Sewer revenue	1,608,433	1,412,673
Sewer service fees	49,122	54,140
Impact fees	771,088	637,254
Other income	92,831	37,305
Total Operating Revenue	5,344,968	4,440,107
Operating Expenses		
Water purchases	997,080	740,369
Salaries and wages	981,333	878,290
Employee benefits	508,591	95,689
Payroll taxes	86,318	70,423
System supplies and small equipment	337,704	261,589
System repairs and maintenance	48,245	118,599
Equipment repairs and maintenance	36,281	27,184
Equipment rental	19,524	12,407
Utilities	149,680	166,481
Sewer chemicals	40,565	41,739
Fuel	22,277	21,856
Insurance	28,942	35,894
Licenses and training	3,457	2,236
Permits, fees, and dues	32,280	57,348
Uniforms	8,081	6,810
Safety equipment	1,705	3,156
Professional services	27,553	25,613
Office supplies	58,445	56,038
Miscellaneous	5,260	3,500
Depreciation and amortization	664,094	613,790
Total Operating Expenses	4,057,415	3,239,011
Operating Income	1,287,553	1,201,096
Nonoperating Revenues (Expenses)		
Interest income	79,135	53,079
Gain on sale of asset	3,525	-
Insurance recoveries	53,226	-
Interest expense	(270,969)	(286,420)
Total Nonoperating Revenues (Expenses)	(135,083)	(233,341)
Income Before Capital Contributions	1,152,470	967,755
Capital Contributions, private developers	6,892,033	93,907
Change in Net Position	8,044,503	1,061,662
Net Position, Beginning of Year	5,306,105	4,244,443
Net Position, End of Year	\$ 13,350,608	\$ 5,306,105

See accompanying notes to financial statements.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2024	2023
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 5,339,361	\$ 4,346,287
Cash payments to suppliers for goods and services	(1,427,578)	(1,612,385)
Cash payments to employees for services	(1,580,314)	(1,019,575)
Net Cash Provided By Operating Activities	2,331,469	1,714,327
Cash Flows From Capital and Related Financing Activities		
Acquisition of property, plant and equipment	(7,471,731)	(393,223)
Developer contribution for sewer extension	6,892,033	93,907
Insurance recoveries	53,226	-
Proceeds from sale of assets	3,525	-
Principal paid on debt	(357,126)	(344,214)
Payments on lease liability	(17,397)	(17,201)
Interest paid on debt	(271,206)	(278,789)
Net Cash Used In Capital and Related Financing Activities	(1,168,676)	(939,520)
Cash Flows From Investing Activities		
Reinvestment of certificate of deposit earnings	(316)	-
Interest income	79,135	53,079
Net Cash Provided By Investing Activities	78,819	53,079
Net Increase In Cash, Cash Equivalents and Restricted Cash	1,241,612	827,886
Cash, Cash Equivalents and Restricted Cash At Beginning of Year	3,117,431	2,289,545
Cash, Cash Equivalents and Restricted Cash At End of Year	\$ 4,359,043	\$ 3,117,431
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 1,630,917	\$ 1,274,774
Restricted cash and cash equivalents	2,728,126	1,842,657
Total Cash, Cash Equivalents and Restricted Cash	\$ 4,359,043	\$ 3,117,431

See accompanying notes to financial statements.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2024	2023
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net income from operations	\$ 1,287,553	\$ 1,201,096
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	664,094	613,790
(Increase) decrease in:		
Accounts receivable	6,287	(110,259)
Inventory	12,693	(39,614)
Prepaid insurance	(19,766)	2,576
Deferred outflows of resources related to pension	(728,462)	(68,065)
Increase (decrease) in:		
Accounts payable	134,105	73,537
Wages payable	13,830	18,102
Accrued payroll taxes and benefits	(17,902)	6,725
Sales tax payable	(2,713)	(1,528)
Customer meter deposits	(9,181)	17,967
Net pension liability	952,008	-
Deferred inflows of resources related to pension	38,923	-
Net Cash Provided By Operating Activities	\$ 2,331,469	\$ 1,714,327
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Total cost of fixed assets acquired	\$ 7,468,761	\$ 339,597
Less: current year construction payables	-	(2,970)
Plus: prior year construction payables	2,970	56,596
Net cash used to acquire capital assets	\$ 7,471,731	\$ 393,223
Right-to-use lease assets and liabilities	\$ -	\$ 18,793

See accompanying notes to financial statements.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

Nature of Operations

The City of Pea Ridge Waterworks and Sewer System (the Department) is an enterprise fund of the City of Pea Ridge, Arkansas (the City). The City of Pea Ridge, through its Mayor and City Council, has oversight over the Waterworks and Sewer System. The Department provides water, which it purchases, to its customers, and also provides sewer services within the City limits. The City Council of Pea Ridge, Arkansas sets user charges, establishes budgets, selects management, and controls all aspects of the Waterworks and Sewer System's daily operations.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Department'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 Department 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 Department is considered to be a component unit of the City of Pea Ridge. These financial statements reflect the Water & Sewer Department Enterprise Fund of the City of Pea Ridge, Arkansas 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Income Taxes

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

Cash Equivalents

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

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

1. Summary of Significant Accounting Policies (continued)

Investments

The Department's investments are recorded at fair value. Restricted investments, consist of securities designated for debt service and depreciation reserves.

Accounts Receivable

Accounts receivable consists of sewer and water fees and surcharges billed to residential and commercial/industrial customers based on consumption. The Department does not charge interest on overdue accounts but does charge a late fee for late payments. Accounts receivable are recorded net of estimated uncollectible amounts. The Department 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 Department has used reasonable collection efforts are written off. The allowance for doubtful accounts was \$30,067 and \$5,200 at December 31, 2024 and 2023, respectively.

Inventories

Inventory consists of supplies and repair parts for the operation and maintenance of plant and equipment. Inventory is stated at cost, which approximates 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 which services are consumed.

Right-to-Use Lease Assets / Lease Liabilities

The Department determines if an arrangement contains a lease at the inception of a contract. Right-to-use assets represent the Department's right to use an underlying asset for the lease term and lease liabilities represent the Department'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 Department 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	2 years
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CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

1. Summary of Significant Accounting Policies (continued)

Right-to-Use Lease Assets / Lease Liabilities (continued)

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

Capital Assets And Depreciation

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance 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:

Plant, building, and improvements	3 - 40 years
Vehicles	3 - 7 years
Equipment	3 - 15 years
Office equipment	3 - 10 years

It is the Department's policy to capitalize asset purchases greater than \$5,000 and expense asset purchases less than \$5,000.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The Department also recognizes deferred outflows of resources related to pensions.

In addition to liabilities, the Statement of Net Position has a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Department recognizes deferred inflows of resources related to pensions.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

Employees earn vacation and personal days in varying amounts based upon length of service with the Department. Vacation must be used by the employees year-end anniversary date or it is lost. The Department also recognizes its obligation relating to employees' rights to receive compensation for future absences attributable to employees' service already rendered. Upon termination from the Department, employees are paid their accumulated unused vacation, personal and comp hours. Accrued compensated absences is included in wages payable and totaled \$36,946 and \$32,158 at December 31, 2024 and 2023, respectively.

Customer Meter Deposits

Unless a letter of credit is provided by the customer to the Department, customers are required to make a meter deposit before being connected to the water system. If the customer makes timely payments for twenty-four consecutive months their deposit is applied to their account balance. Otherwise, when the Department no longer serves the customer, the deposit is applied to the customers final bill, and any remaining balance is refunded to the customer.

Net Position

Net position of the Department are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

The Department 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. Department personnel decide which resources to use at the time the expenditures are incurred. For financial statement classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted. The Department's restricted net position are those resources necessary to comply with various covenants of bond financing agreements and City ordinances.

Operating Revenues and Expenses

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. 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 during the Department's fiscal year. These standards did not have any impact on the Department's financial statements.

GASB Statement No. 100, *Accounting Changes and Error - Corrections - an amendment of GASB Statement No. 62*. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. The Statement's objective is to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

GASB Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The objective is achieved by aligning the recognition and measurement and guidance under a unified model and by amending certain previously required disclosures.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

2. Deposits with Financial Institutions and Investments

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Department's deposits may not be recovered. At December 31, 2024 and 2023 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:

Description	As of December 31, 2024		As of December 31, 2023	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 975,688	\$ 975,260	\$ 1,194,424	\$ 963,529
Collateralized - held by pledging bank or pledging bank's trust department in the Department's name	3,433,206	3,383,083	1,858,023	2,153,202
Cash on hand	-	700	-	700
Total	\$ 4,408,894	\$ 4,359,043	\$ 3,052,447	\$ 3,117,431

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

As Of December 31,	2024	2023
Cash and cash equivalents	\$ 1,630,917	\$ 1,274,774
Restricted cash and cash equivalents	2,728,126	1,842,657
Total	\$ 4,359,043	\$ 3,117,431

Investments

Investments consist of certificates of deposit established for debt service and depreciation reserves. The investments are stated at cost plus accrued interest, which approximates fair value. The Department's investments consist of the following:

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

2. Deposits with Financial Institutions and Investments (continued)

Investments (continued)

As of December 31, 2024	Market	Maturity (in Years)		Credit Rating
		Less than 1	1 - 2	
Certificates of deposit	\$ 94,137	\$ 50,688	\$ 43,449	N/A
Total	\$ 94,137	\$ 50,688	\$ 43,449	

As of December 31, 2023	Market	Maturity (in Years)		Credit Rating
		Less than 1	1 - 3	
Certificates of deposit	\$ 93,821	\$ -	\$ 93,821	N/A
Total	\$ 93,821	\$ -	\$ 93,821	

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 Department limits its exposure to interest rate risk by structuring its certificates of deposit to provide liquidity for operating funds and maximizing yields for funds not needed within a five-year period.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Department has its investments in certificates of deposit 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 Department 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 Department or by an agent of the Department are in the Department's name.

Fair Value Measurements

The District'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

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

2. Deposits with Financial Institutions and Investments (continued)

Fair Value Measurements (continued)

The following table represents the Department's investments that are measured at fair value on a recurring basis at December 31, 2024:

	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ 94,137	\$ -	\$ -	\$ 94,137
Total	\$ 94,137	\$ -	\$ -	\$ 94,137

3. Restricted Cash and Investments

Restricted cash is comprised of the following accounts:

As of December 31,	2024	2023
Impact fees	\$ 1,369,557	\$ 644,865
2012 Bond		
Water Depreciation Fund	546,011	483,950
Sewer Depreciation Fund	197,698	205,525
Bond Fund	85,352	49,086
2020 Bond		
Debt Service Fund	143,922	110,058
Short Lived Asset Reserve	47,256	34,759
2021 Bond		
Debt Service Reserve Fund	131,106	131,106
Bond Fund	94,514	82,716
Meter Deposit Fund	112,710	100,592
Total restricted cash	\$ 2,728,126	\$ 1,842,657

Restricted certificates of deposit is comprised of the following accounts:

As of December 31,	2024	2023
Water Depreciation Fund	\$ 25,161	\$ 25,004
Sewer Depreciation Fund	25,527	25,368
2012 Bond Debt Service Reserve	43,449	43,449
Total restricted investments	\$ 94,137	\$ 93,821

Restricted accounts are for the following:

Impact fees - restricted for projects increasing the capacity of the waterworks and sewer system (see Note 11)

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

3. Restricted Cash and Investments (continued)

Depreciation Fund / Short Lived Asset Reserve - for repairs, maintenance, betterments and improvements of the Department

Meter Deposits - restricted for repayment of customer meter deposits.

Bond / Bond Revenue Funds - established to fund the semi-annual interests and annual principal payments of the bonds.

Debt Service Reserve - restricted for payment of principal and interest of the bonds if funds are not available.

4. Capital Assets / Developer Contribution Revenue

Activity of capital assets consists of the following:

As Of	January 1, 2024	Additions	Retirements / Transfers	December 31, 2024
Land	\$ 89,481	\$ -	\$ -	\$ 89,481
Plant, building, and improvements	22,289,380	7,170,074	-	29,459,454
Equipment and machinery	413,457	35,717	-	449,174
Vehicles	320,097	46,584	25,750	340,931
Office equipment	128,762	5,396	-	134,158
Construction in process	149,112	277,186	66,196	360,102
Total capital assets	23,390,289	7,534,957	91,946	30,833,300
Less accumulated depreciation	8,854,024	654,698	25,750	9,482,972
Capital assets, net	\$ 14,536,265	\$ 6,880,259	\$ 66,196	\$ 21,350,328

As Of	January 1, 2023	Additions	Retirements / Transfers	December 31, 2023
Land	\$ 89,481	\$ -	\$ -	\$ 89,481
Plant, building, and improvements	21,395,903	893,477	-	22,289,380
Equipment and machinery	405,662	7,795	-	413,457
Vehicles	266,597	53,500	-	320,097
Office equipment	88,165	40,597	-	128,762
Construction in process	804,884	181,066	836,838	149,112
Total capital assets	23,050,692	1,176,435	836,838	23,390,289
Less accumulated depreciation	8,258,508	595,516	-	8,854,024
Capital assets, net	\$ 14,792,184	\$ 580,919	\$ 836,838	\$ 14,536,265

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

4. Capital Assets / Developer Contribution Revenue (continued)

The Department records capital contributions for developer funded infrastructure in new developments. Contributed capital revenue recorded was \$6,892,033 and \$93,307 during the years ended December 31, 2024 and 2023, respectively.

Construction in progress is for the following projects:

Project	CIP Balance 12/31/2024	CIP Balance 12/31/2023	Total (Estimated) Cost	(Estimated) Completion
Hwy 72 Extension	\$ 205,754	\$ -	\$ 215,000	April 2025
Easterling lift station rehabilitation	77,013	45,232	900,000	2026/2027
Wastewater plant - phase II	35,000	35,000	> 1,000,000	unknown
Elevated Storage tank	33,821	-	7,000,000	unknown
Water reclamation project	8,514	5,890	10,000	2025
Price Coffee	-	62,990	66,196	June 2024
Total	\$ 360,102	\$ 149,112	\$ 9,191,196	

The City issued Water and Sewer Revenue Bonds in the amount of \$8,070,000 in 2019 for construction on a new biological wastewater treatment plant that was retrofitted into the existing system which was completed in 2021. Phase II of the project includes sludge dewatering. Phase II has been placed on hold due to the Easterling project. The Easterling project is for rehabilitation of a lift station and is still in the planning / engineering phase with plans to commence construction in 2026.

The elevated storage tank project is to build a new water tower. This project is still in the planning stages but is estimated to cost \$7 million and the water line extension to connect the towers is estimated at \$6.5 million. The Department is securing funding for the projects and will also use impact fees collected (see Note 11).

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

The Department leases construction equipment under three leases. One lease is a two year contract expiring in 2025 charging a fixed rate for usage. A second lease was a two year contract that expired in 2024 and was renewed for an additional year. The third lease is under a month to month rental agreement. Equipment rental expenses incurred under the leases is as follows:

As of December 31,	2024	2023
Right-to-use assets	\$ 34,598	\$ 34,598
Less: accumulated amortization	28,883	19,486
Right-to-use assets, net	\$ 5,715	\$ 15,112
Right-to-use lease liability	\$ -	\$ 17,397

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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

Total lease costs are as follows:

For the Year Ended December 31,	2024	2023
Amortization expense	\$ 9,397	\$ 18,274
Lease expense		
Short-term lease expense	17,814	10,697
Sales tax on leases	1,710	1,710
Total lease expense	19,524	12,407
Interest expense	603	799
Total Expenses Related to Leases	\$ 29,524	\$ 31,480

6. Long-Term Debt

Long-term debt of the Department consists of:

As Of December 31,	2024	2023
\$1,525,000 Water and Sewer Revenue Refunding and Improvement Bonds Series 2012 - Annual principal payments required ranging from \$20,000 to \$85,000. Semi-annual Interest payments are made with rates varying between 1.125% and 4.25%. The bonds were issued to defease the 2001 Series Bonds, as well as other notes payable, and to finance sewer infrastructure related to compliance with a consent administrative order (CAO) from the Arkansas Department of Environmental Quality (ADEQ) from October 31, 2011. Final maturity of the bonds is November 2042, and revenues of the Department are pledged for payment of bond principal and interest.	\$ 1,085,000	\$ 1,125,000
\$5,600,000 Water and Sewer Revenue Bonds Series 2020 - Payments are made on monthly installments of \$16,632 including interest at 1.875% with final maturity September 2060. The bonds were issued for the construction and installation of a new biological wastewater treatment plant. Revenues of the Department are pledged for payment of the bond principal and interest.	5,181,821	5,283,215

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

6. Long-Term Debt (continued)

As Of December 31,	2024	2023
\$2,470,000 Water and Sewer Revenue Bonds Series 2020 - only \$1,932,265 was borrowed on the bonds. Payments are made in monthly installments of \$7,336 including interest at 1.875% with final maturity September 2060. The bonds were issued for the construction and installation of a new biological wastewater treatment plant. Revenues of the Department are pledged for payment of the bond principal and interest.	1,692,416	1,748,148
\$4,830,000 Water and Sewer Refunding Revenue Bonds Series 2021 - Annual principal payments are made ranging from \$125,000 to \$245,000. Semi-annual Interest payments are made with rates varying between 1.125% and 2.500%. The purpose of the loan was to refund the 2016 Series bonds and retire the USDA loan dated March 10, 2009. Final maturity of the bonds is October 2046 and revenues of the Department are pledged for payment of bond principal and interest.	4,395,000	4,555,000
Total	12,354,237	12,711,363
Less current maturities	360,011	357,040
Long-term debt	11,994,226	12,354,323
Plus: unamortized bond premium	26,553	28,022
Long-Term Debt	\$ 12,020,779	\$ 12,382,345

Debt is scheduled to mature as follows:

December 31,	Bonds		Notes from Direct Placements	
	Principal	Interest	Principal	Interest
2025	\$ 200,000	\$ 135,338	\$ 160,011	\$ 127,605
2026	215,000	130,737	163,039	124,577
2027	215,000	125,762	166,124	121,492
2028	220,000	122,275	169,267	118,349
2029	225,000	118,288	172,470	115,146
2030-2034	1,175,000	517,775	912,552	525,528
2035-2039	1,335,000	359,888	1,002,217	435,863
2040-2044	1,340,000	165,675	1,100,691	337,389
2045-2049	555,000	18,375	1,107,458	230,244
2050-2054	-	-	856,587	141,333
2055-2059	-	-	940,776	57,144
2060	-	-	123,045	1,259
Total	\$ 5,480,000	\$ 1,694,113	\$ 6,874,237	\$ 2,335,929

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

6. Long-Term Debt (continued)

The Department's outstanding notes from direct borrowings and direct placements contain different provisions for loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the Department on behalf of the issuer until all defaults have been cured; take possession of the facility, repair, maintain, and operate or rent it; foreclose; enforce any and all other rights and remedies by law.

7. Changes in Long-Term Liabilities

Activity of the long-term liabilities consists of the following:

As Of	January 1, 2024	Additions	Retirements	December 31, 2024	Due Within One Year
2012 Revenue Bond \$	1,125,000	\$ -	\$ 40,000	\$ 1,085,000	\$ 40,000
2020 Revenue Bond	5,283,215	-	101,394	5,181,821	103,226
2020 Revenue Bond, additional	1,748,148	-	55,732	1,692,416	56,785
2021 Bond	4,555,000	-	160,000	4,395,000	160,000
Net Pension Liability	-	952,008	-	952,008	-
Lease Liability	17,397	-	17,397	-	-
Total	\$ 12,728,760	\$ 952,008	\$ 374,523	\$ 13,306,245	\$ 360,011

As Of	January 1, 2023	Additions	Retirements	December 31, 2023	Due Within One Year
2012 Revenue Bond \$	1,165,000	\$ -	\$ 40,000	\$ 1,125,000	\$ 40,000
2020 Revenue Bond	5,382,731	-	99,516	5,283,215	101,308
2020 Revenue Bond, additional	1,802,846	-	54,698	1,748,148	55,732
2021 Bond	4,705,000	-	150,000	4,555,000	160,000
Lease Liability	15,805	18,793	17,201	17,397	17,397
Total	\$ 13,071,382	\$ 18,793	\$ 361,415	\$ 12,728,760	\$ 374,437

8. Bond Issuance Premium / Discount and Deferred Loss on Refunding

The bond issue premium incurred with the issuance of the 2012 Revenue Series bonds is being amortized over the life of the bond which is 30 years. Amortization of the premium totaled \$1,469 and \$1,468 for the years ended December 31, 2024 and 2023, respectively, and is net with interest expense on the Statement of Revenues, Expenses and Changes in Net Position. The unamortized portion is added to long-term debt.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

8. Bond Issuance Premium / Discount and Deferred Loss on Refunding (continued)

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The balance of \$50,424 and \$52,717 as of December 31, 2024 and 2023, respectively, is shown as deferred outflows on the Statement of Net Position and is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Amortization of the deferred loss totaled \$2,293 for both years ended December 31, 2024 and 2023, and is included in interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

9. Bond Covenants

The Department's bond ordinances contain a provision (the Rate Covenant) which requires the Department 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, 2024 and 2023, the Department was in compliance with the rate covenant.

The bond ordinances contain specific requirements for annual debt service and various covenants which require the Department to maintain various restricted cash and investment accounts and to meet various other general requirements. The Department was in compliance with all such significant financial covenants and restrictions for the years ended December 31, 2024 and 2023.

10. Arkansas Public Employees Retirement System

Plan Description

In July, 2023, the Department began participating in the Arkansas Public Employees Retirement System (APERS). APERS is a cost-sharing, multiple employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the thirteen members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes: three state and three non-state employees, all appointed by the Governor; three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration, and four additional board positions that were added in Act 868 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

10. Arkansas Public Employees Retirement System (continued)

Plan Description (continued)

House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other appointed by the Senate.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Summary of Significant Accounting Policies

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (the Plan) and additions to / deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

10. Arkansas Public Employees Retirement System (continued)

Benefits Provided (continued)

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. The contribution rates for the APERS years ended June 30, 2024 and 2023 were 5.75% and 5.50%, respectively.

Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the Plan fiscal years ended June 30, 2024 and 2023. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

Contributions made by the Department were \$141,423 and \$68,065 for the years ended December 31, 2024 and 2023, respectively.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

10. Arkansas Public Employees Retirement System (continued)

Timing of the Valuation

The collective Net Pension Liability was measured as of June 30, 2024, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. Based on this information, the City's proportionate share as of June 30, 2024 was 0.09024081%. Approximately 42% of this amount was allocated to the Department.

There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of June 30, 2024 and the Department's report ending date of December 31, 2024, that would have had a significant impact on the net pension liability.

Actuarial Assumptions

The total pension liability, net pension liability, and certain sensitivity information was determined by an actuarial valuation as of June 30, 2024. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.00%
Wage Inflation Rate	3.25%
Salary Increases	3.25% – 9.85%
Investment Rate of Return	7.15%
Mortality Rate Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017

All other actuarial assumptions used in the June 30, 2024, valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2022, and were applied to all prior periods included in the measurement.

Long-Term Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2024 to 2033 were based upon GRS' 2024 Capital Market Assumptions Modeler.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

10. Arkansas Public Employees Retirement System (continued)

Long-Term Rate of Return (continued)

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2024, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	39%	5.03%
International Equity	17%	6.34%
Real Estate	16%	4.51%
Private Equity	5%	9.00%
Hedge Funds	2%	3.63%
Domestic Fixed	21%	3.38%
	<u>100%</u>	
Total Real Rate of Return		5.00%
Plus: Price Inflation - Actuary's Assumption		<u>2.50%</u>
Net Expected Return		7.50%

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the June 30, 2023 valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 3.97% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"; and the resulting single discount rate is 7.00%.

The single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

10. Arkansas Public Employees Retirement System (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the participating employers' net pension liability, calculated using a single discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Net Pension Liability (Asset)	\$ 1,624,468	\$ 952,008	\$ 397,614

Pension Expense, and Deferred Inflows / Outflows of Resources

The Department's proportionate share of pension expense was \$398,912 for the Plan year ended June 30, 2024. At December 31, 2024, the Department reported deferred outflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,946	\$ 38,923
Changes in assumptions	33,177	-
Net difference between projected and actual earnings on pension plan investments	27,617	-
Changes in proportion and differences between employer contributions and share contributions	628,041	-
Department contributions subsequent to the measurement date	70,746	-
Total	\$ 796,527	\$ 38,923

\$70,746 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>	<u>Net Increase (Decrease) in Pension Expense</u>
2025	\$ 230,607
2026	370,389
2027	108,644
2028	(22,782)
	\$ 686,858

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

11. Impact Fee Revenue

In accordance with Arkansas Code Annotated §14-56-103, the Department may charge a development impact fee to generate revenue for funding or recouping expenditures of the Department that are reasonably attributable to the use and occupancy of the Department. The fee is charged to developers based upon the meter size and type required for the residential/commercial/industrial unit. Amounts collected may only be used for the water and sewer projects as detailed in the Department's Capital Plan and Level of Service Standards dated November 12, 2022, as well as capital related debt service expenditures. The Department collected \$771,088 and \$637,254 of impact fees during the years ended December 31, 2024 and 2023, respectively.

12. Concentrations of Credit Risks

The Department is engaged in operating water and sewer systems in Pea Ridge, Arkansas and surrounding areas. Although the Department 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.

13. Retirement Plan

Prior to joining APERS (see Note 10), the Department offered employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The Plan permitted employees to defer a portion of their salary until future years. Participation was optional. The deferred compensation was 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 Department 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 Department 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 Department's financial statements.

The Department also offered employees a defined contribution plan established under IRS section 401(a). Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation, in accordance with Section 401(d) of the Internal Revenue Code.

On behalf of each participant, the Department contributed to the Plans an amount ranging from 4% to 10% of each participant's compensation, depending on length of service with the Department. The Department contributed \$9,536 to the plans during the year ended December 31, 2023.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

14. Risk Management

The Department 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 Department 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 Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

15. Commitments

The Department has a contract to purchase all of its water from the Benton/Washington County Water Association. The term of the contract is for thirty years beginning June 21, 2007 and may thereafter be renewed or extended as agreed upon between the seller and purchaser. Water purchases by the Department totaled \$997,080 and \$740,369 for the years ended December 31, 2024 and 2023, respectively.

16. Subsequent Events

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2024 through April 30, 2025, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED DECEMBER 31, 2024

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios Last Fiscal Year

	<u>APERS</u> <u>June 30, 2024</u>	<u>APERS</u> <u>June 30, 2023</u>
City of Pea Ridge's proportion of the net pension liability	0.00902408%	0.00000000%
Percent allocated to the Water and Sewer System	42.4%	0.00%
City of Pea Ridge's proportionate share of the net pension liability	\$ 2,245,301	\$ -
Amount allocated to the Water and Sewer System	\$ 952,008	-
Department's covered-employee payroll	\$ 899,260	\$ -
Department's proportionate share of the net pension liability as a percentage of its covered-employee payroll	105.87%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	81.61%	77.94%

Schedule of Required Contributions Last Fiscal Year

	<u>December 31,</u> <u>2024</u>	<u>December 31,</u> <u>2023</u>
Contractually required contribution	\$ 145,671	\$ 67,090
Contributions in relation to the contractually required contribution	\$ (141,423)	\$ (62,496)
Contribution deficiency (excess)	\$ 4,248	\$ 4,594
Department's covered-employee payroll	\$ 950,854	\$ 437,927
Contributions as a percentage of covered-employee payroll	14.87%	14.27%

See independent auditor's report.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED DECEMBER 31, 2024

Notes to Required Supplemental Information for Cost-Sharing Employer Plans

1. The schedules are intended to show 10 years - additional information will be presented as it becomes available.

2. Changes in benefits: None: June 30, 2023 through June 30, 2024

3. Changes in actuarial assumptions:

Single Discount Rate:	June 30, 2023 and 2024	7.00%
Investment Rate of Return:	June 30, 2023 and 2024	7.15%
Municipal Bond Rate	June 30, 2024	3.97%
Source:	June 30, 2023	3.86%
20-Bond GO Index		
Inflation	June 30, 2023 and 2024	3.25% wage 2.50% price
Salary Increases	June 30, 2023 and 2024	3.25% - 9.85%
Mortality Table	June 30, 2023 and 2024	Based on RP-2006 weighted generational mortality tables for healthy annuitant disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017

See independent auditor's report.

SUPPLEMENTAL INFORMATION

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

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

FOR THE YEAR ENDED DECEMBER 31, 2024	Water	Sewer	Total
Operating Revenue			
Water revenues, less bad debts	\$ 2,419,951	\$ -	\$ 2,419,951
Water service fees	403,543	-	403,543
Sewer revenue	-	1,608,433	1,608,433
Sewer service fees	-	49,122	49,122
Impact fees	268,473	502,615	771,088
Other income	92,831	-	92,831
Total Operating Revenue	3,184,798	2,160,170	5,344,968
Operating Expenses			
Water purchases	997,080	-	997,080
Salaries and wages	573,844	407,489	981,333
Employee benefits	292,482	216,109	508,591
Payroll taxes	48,731	37,587	86,318
System supplies and small equipment	312,966	24,738	337,704
System repairs and maintenance	8,798	39,447	48,245
Equipment repairs and maintenance	24,637	11,644	36,281
Equipment rental	10,470	9,054	19,524
Utilities	23,686	125,994	149,680
Sewer chemicals	-	40,565	40,565
Fuel	11,331	10,946	22,277
Insurance	10,645	18,297	28,942
Licenses and training	1,202	2,255	3,457
Permits, fees, and dues	9,416	22,864	32,280
Uniforms	4,792	3,289	8,081
Safety equipment	-	1,705	1,705
Professional services	15,707	11,846	27,553
Office supplies	42,908	15,537	58,445
Miscellaneous	4,899	361	5,260
Depreciation and amortization	664,094	-	664,094
Total Operating Expenses	3,057,688	999,727	4,057,415
Operating Income	127,110	1,160,443	1,287,553
Nonoperating Revenues (Expenses)			
Interest income	38,239	40,896	79,135
Gain on sale of asset	2,725	800	3,525
Insurance recoveries	53,226	-	53,226
Interest expense	(63,393)	(207,576)	(270,969)
Total Nonoperating Revenues (Expenses)	30,797	(165,880)	(135,083)
Income Before Capital Contributions	157,907	994,563	1,152,470
Capital Contributions, private developers	4,548,742	2,343,291	6,892,033
Change in Net Position	\$ 4,706,649	\$ 3,337,854	\$ 8,044,503

See independent auditor's report.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

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

FOR THE YEAR ENDED DECEMBER 31, 2023	Water	Sewer	Total
Operating Revenue			
Water revenues, less bad debts	\$ 2,071,537	\$ -	\$ 2,071,537
Water service fees	227,198	-	227,198
Sewer revenue	-	1,412,673	1,412,673
Sewer service fees	-	54,140	54,140
Impact fees	197,992	439,262	637,254
Other income	34,495	2,810	37,305
Total Operating Revenue	2,531,222	1,908,885	4,440,107
Operating Expenses			
Water purchases	740,369	-	740,369
Salaries and wages	496,186	382,104	878,290
Employee benefits	51,494	44,195	95,689
Payroll taxes	39,127	31,296	70,423
System supplies and small equipment	248,600	12,989	261,589
System repairs and maintenance	19,840	98,759	118,599
Equipment repairs and maintenance	16,162	11,022	27,184
Equipment rental	4,176	8,231	12,407
Utilities	18,758	147,723	166,481
Sewer chemicals	-	41,739	41,739
Fuel	10,612	11,244	21,856
Insurance	11,641	24,253	35,894
Licenses and training	218	2,018	2,236
Permits, fees, and dues	22,800	34,548	57,348
Uniforms	2,342	4,468	6,810
Safety equipment	-	3,156	3,156
Professional services	13,872	11,741	25,613
Office supplies	38,790	17,248	56,038
Miscellaneous	1,215	2,285	3,500
Depreciation and amortization	613,790	-	613,790
Total Operating Expenses	2,349,992	889,019	3,239,011
Operating Income	181,230	1,019,866	1,201,096
Nonoperating Revenues (Expenses)			
Interest income	29,251	23,828	53,079
Interest expense	(72,735)	(213,685)	(286,420)
Total Nonoperating Revenues (Expenses)	(43,484)	(189,857)	(233,341)
Income Before Capital Contributions	137,746	830,009	967,755
Capital Contributions, private developers	-	93,907	93,907
Change in Net Position	\$ 137,746	\$ 923,916	\$ 1,061,662

See independent auditor's report.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

SCHEDULE OF BONDS OUTSTANDING

AS OF DECEMBER 31, 2024

City of Pea Ridge, Arkansas Water and Sewer Revenue Refunding and Improvement Bonds - Series 2012

Year	Principal	Interest Rate	Interest May 1,	Interest November 1,	Total
2025	\$ 40,000	3.50	\$ 22,175	\$ 22,175	\$ 84,350
2026	45,000	3.50	21,475	21,475	87,950
2027	45,000	3.50	20,688	20,688	86,376
2028	45,000	4.00	19,900	19,900	84,800
2029	50,000	4.00	19,000	19,000	88,000
2030	50,000	4.00	18,000	18,000	86,000
2031	55,000	4.00	17,000	17,000	89,000
2032	55,000	4.00	15,900	15,900	86,800
2033	60,000	4.00	14,800	14,800	89,600
2034	60,000	4.25	13,600	13,600	87,200
2035	60,000	4.25	12,325	12,325	84,650
2036	65,000	4.25	11,050	11,050	87,100
2037	70,000	4.25	9,669	9,669	89,338
2038	70,000	4.25	8,181	8,181	86,362
2039	75,000	4.25	6,694	6,694	88,388
2040	75,000	4.25	5,100	5,100	85,200
2041	80,000	4.25	3,506	3,506	87,012
2042	85,000	4.25	1,806	1,806	88,612
	\$ 1,085,000		\$ 240,869	\$ 240,869	\$ 1,566,738

See independent auditor's report.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

SCHEDULE OF BONDS OUTSTANDING

AS OF DECEMBER 31, 2024

City of Pea Ridge, Arkansas Water and Sewer Refunding Revenue Bonds - Series 2021

Year	Principal	Interest Rate	Interest April 1,	Interest October 1,	Total
2025	\$ 160,000	2.000	\$ 45,494	\$ 45,494	\$ 250,988
2026	170,000	2.000	43,894	43,894	257,788
2027	170,000	1.125	42,194	42,194	254,388
2028	175,000	1.250	41,238	41,238	257,475
2029	175,000	1.375	40,144	40,144	255,288
2030	175,000	1.500	38,941	38,941	252,881
2031	175,000	1.625	37,628	37,628	250,256
2032	185,000	2.000	36,206	36,206	257,413
2033	190,000	2.000	34,356	34,356	258,713
2034	190,000	2.000	32,456	32,456	254,913
2035	195,000	2.000	30,556	30,556	256,113
2036	205,000	2.000	28,606	28,606	262,213
2037	200,000	2.250	26,556	26,556	253,113
2038	205,000	2.250	24,306	24,306	253,613
2039	210,000	2.250	22,000	22,000	254,000
2040	220,000	2.250	19,638	19,638	259,275
2041	220,000	2.250	17,163	17,163	254,325
2042	225,000	2.500	14,688	14,688	254,375
2043	225,000	2.500	11,875	11,875	248,750
2044	235,000	2.500	9,063	9,063	253,125
2045	245,000	2.500	6,125	6,125	257,250
2046	245,000	2.500	3,063	3,063	251,125
	\$ 4,395,000		\$ 606,188	\$ 606,188	\$ 5,607,375

See independent auditor's report.

CITY OF PEA RIDGE WATERWORKS AND SEWER SYSTEM

CUSTOMER COUNTS, VOLUMES AND RATES

FOR THE YEAR ENDED DECEMBER 31, 2024

Water customers	<u>4,788</u>
Sewer customers	<u>3,901</u>
Gallons purchased during the year	<u>303,793,000</u>
Gallons billed during the year	<u>230,650,500</u>

Water Rates - Inside City Limits

1 - 1,000 gallons	\$19.00	Minimum
1,001 - 2,000 gallons	\$19.00	+ \$0.625/100 gallons in excess of 1,000 gallons
2,001 - 20,000 gallons	\$25.25	+ \$0.725/100 gallons in excess of 2,000 gallons
Over 20,000 gallons	\$155.75	+ \$0.825/100 gallons in excess of 20,000 gallons

Water Rates - Outside City Limits

1 - 1,000 gallons	\$23.20	Minimum
1,001 - 2,000 gallons	\$23.20	+ \$0.690/100 gallons in excess of 1,000 gallons
2,001 - 20,000 gallons	\$30.10	+ \$0.790/100 gallons in excess of 2,000 gallons
Over 20,000 gallons	\$172.30	+ \$0.890/100 gallons in excess of 20,000 gallons

Sewer Rates - Inside City Limits

1 - 1,000 gallons	\$19.50	Minimum
Over 1,000 gallons	\$19.50	+ \$6.05/1,000 gallons in excess of 1,000 gallons

Sewer Rates - Outside City Limits

1 - 1,000 gallons	\$22.50	Minimum
Over 1,000 gallons	\$22.50	+ \$7.03/1,000 gallons in excess of 1,000 gallons

See independent auditor's report.

ADDITIONAL REQUIRED REPORT



**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based on An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor and City Council
City of Pea Ridge
Pea Ridge, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Pea Ridge Waterworks and Sewer System, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the City of Pea Ridge Waterworks and Sewer System's basic financial statements, and have issued our report thereon dated April 30, 2025, which was modified to reflect the omission of the management's discussion and analysis.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Pea Ridge Waterworks and Sewer System'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 City of Pea Ridge Waterworks and Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Pea Ridge Waterworks and Sewer System'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 or significant deficiencies may exist that were not been identified.

Report on Compliance and Other Matters

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

Purpose of This Report

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



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
April 30, 2025