

# **OSAGE BASIN WASTEWATER DISTRICT**

## **FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

*For the Years Ended December 31, 2003 and 2002*

**DANIEL R. McCORMICK, C.P.A., P.A.***Certified Public Accountant*220 SOUTH SCHOOL AVENUE  
FAYETTEVILLE, ARKANSAS 72701  
PH (479) 444-8200 FAX (479) 444-8203To the Board of Directors  
Osage Basin Wastewater District  
Tontitown, Arkansas

We have audited the accompanying financial statements of the Osage Basin Wastewater District as of December 31, 2003 and 2002 and for the years then ended. These financial statements are the responsibility of the Osage Basin Wastewater District's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issue by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osage Basin Wastewater District as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2004, on our consideration of the Osage Basin Wastewater District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Daniel R. McCormick, C.P.A., P.A.  
August 16, 2004

**OSAGE BASIN WASTEWATER DISTRICT  
STATEMENTS OF NET ASSETS**

**December 31, 2003 and 2002**

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 177,735	\$ 94,440
Grant receivable	25,724	-
Total current assets	<u>203,459</u>	<u>94,440</u>
<b>NONCURRENT ASSETS</b>		
Temporarily restricted cash	87,572	282,281
Capital assets:		
Land	199,937	195,874
Wastewater treatment facility engineering and permitting costs	<u>261,408</u>	<u>69,152</u>
Total noncurrent assets	<u>548,917</u>	<u>547,307</u>
<b>TOTAL ASSETS</b>	<u>\$ 752,376</u>	<u>\$ 641,747</u>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>NONCURRENT LIABILITIES</b>		
Wastewater revenue bond	<u>\$ 257,500</u>	<u>\$ 257,500</u>
<b>TOTAL LIABILITIES</b>	<u>257,500</u>	<u>257,500</u>
<b>NET ASSETS</b>		
Restricted for capital projects	113,296	282,281
Invested in capital assets, net of related debt	203,845	7,526
Unrestricted	<u>177,735</u>	<u>94,440</u>
<b>TOTAL NET ASSETS</b>	<u>494,876</u>	<u>384,247</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 752,376</u>	<u>\$ 641,747</u>

See accompanying notes to financial statements

**OSAGE BASIN WASTEWATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Years Ended December 31, 2003 and 2002**

<u>NON-OPERATING REVENUE (EXPENSE)</u>	<u>2003</u>	<u>2002</u>
Grants income	\$ 25,724	\$ 61,302
Member contributions	80,000	-
Interest income	4,941	5,201
Advertising	-	(80)
Bank service charges	-	(9)
Legal fees	-	(728)
Taxes	(36)	
Increase in net assets	<u>110,629</u>	<u>65,686</u>
Total net assets, beginning	<u>384,247</u>	<u>318,561</u>
Total net assets, ending	<u>\$ 494,876</u>	<u>\$ 384,247</u>

See accompanying notes to financial statements

**OSAGE BASIN WASTEWATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
<u>Cash flows from operating activities:</u>		
Cash payments for services	\$ (36)	\$ (817)
Net cash used in operating activities:	(36)	(817)
<u>Cash flows from capital and related financing activities:</u>		
Wastewater revenue bond advances		\$ 257,500
Capital grants from Tontitown and Highfill	80,000	-
Grants income	-	61,302
Interest income	4,941	5,201
Net cash provided by capital and related financing activities	<u>84,941</u>	<u>324,003</u>
<u>Cash flows from investing activities:</u>		
Change in temporarily restricted cash	194,709	(282,281)
Investment in wastewater treatment facility	<u>(196,319)</u>	<u>(265,026)</u>
Net cash used in investing activities	(1,610)	(547,307)
Net increase in cash and cash equivalents	83,295	(224,121)
Cash and cash equivalents at January 1,	<u>94,440</u>	<u>318,561</u>
Cash and cash equivalents at December 31,	<u>\$ 177,735</u>	<u>\$ 94,440</u>
<u>Reconciliation of operating income to net cash</u> <u>provided by operating activities</u>		
Increase in net assets:	<u>\$ 110,629</u>	<u>\$ 65,686</u>
Net cash provided by operating activities	<u>\$ 110,629</u>	<u>\$ 65,686</u>
Adjustment to reconcile increase in net assets to net cash provided by operating activities		
Increase in grant receivable	<u>(25,724)</u>	<u>-</u>
Net cash used in operating activities	<u>\$ (25,724)</u>	<u>\$ -</u>

See accompanying notes to financial statements

**OSAGE BASIN WASTEWATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**Years Ended December 31, 2003 and 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Osage Basin Wastewater District (the District) utilizes the accrual basis of accounting. Accordingly, revenue is recognized when earned rather than when received, and expenditures are recognized when incurred rather than when paid.

Highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased are classified as cash equivalents.

Engineering, legal and permitting costs are capitalized as part of the cost of the treatment facility and collection system and will be depreciated using the straight-line method over an estimated forty-year life once the facility begins operations. The District capitalizes net interest costs as part of the cost of construction of the wastewater treatment facility and collection system.

It is the District's policy to use restricted resources first, and then unrestricted resources as needed when both restricted and unrestricted resources are available for use.

2. REPORTING ENTITY

The District will be a regional wastewater treatment facility and collection system. It was organized on January 6, 2001 to provide wastewater collection and treatment services to the incorporated communities of Tontitown and Highfill, Arkansas.

3. CASH

At December 31, 2003, the carrying amounts and bank balances of the Osage Basin Wastewater District's cash account was approximately \$205,000. Of the bank balances, \$100,000 was covered by federal depository insurance and a guaranty bond issued by the Kansas Bankers Surety Company covered the remaining \$105,000.

4. TEMPORARILY RESTRICTED CASH AND NET ASSETS

Temporarily restricted cash represents remaining proceeds from the wastewater revenue bond designated for engineering and other preliminary costs related to the acquisition, construction and equipping of the wastewater treatment facility. Net assets restricted for capital projects include the excess of assets over certain liabilities restricted for investment in the development of the wastewater treatment facility.

#### 5. WASTEWATER TREATMENT FACILITY

The wastewater treatment facility and collection system are in the planning, engineering, permitting and acquisition stage of development. All costs associated with the treatment facility and collection system have been capitalized. The Cities of Tontitown and Highfill each paid \$40,000 and \$45,000 in the years ended December 31, 2003 and 2002, respectively towards the development of the wastewater treatment facility. These contributions have recorded as unrestricted grant revenue.

#### 6. WASTEWATER REVENUE BOND, SERIES 2002

Wastewater Revenue Bond, Series 2002 (the Bond) registered with the Arkansas Soil and Water Conservation Commission is dated September 1, 2002 and bears interest from November 1, 2012 at 5% per annum. Proceeds of the Bond, plus any investment earnings thereon, shall be used to finance engineering and other preliminary costs related to the acquisition, construction and equipping of a wastewater treatment system. The Bond requires annual payments of \$20,662 beginning June 1, 2013 through the bond maturity date on June 1, 2032. The Bond is secured by a lien on and pledge of system revenues. Bond proceeds are maintained in a project fund held by the Trustee. The balance in the project fund was \$240,496 and \$59,971 at December 31, 2003 and 2002, respectively. A Depreciation Reserve Fund is to be funded, after the system is constructed, at a monthly rate of 3% of gross revenues of the system for the preceding month.