

**WATER DEPARTMENT OF THE
CITY OF TONTITOWN,
ARKANSAS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2000 and 1999

DANIEL R. McCORMICK, CPA, PA

Certified Public Accountant

220 SOUTH SCHOOL

FAYETTEVILLE, ARKANSAS 72701

PH. (501)444-8200 FAX (501)444-8203

To the Honorable Mayor and City Council
City of Tontitown
Tontitown, Arkansas

We have audited the accompanying financial statements of the Water Department of the City of Tontitown, Arkansas, a component unit of the City of Tontitown, Arkansas as of December 31, 2000 and 1999 and for the years then ended. These component unit financial statements are the responsibility of the City of Tontitown, Arkansas' 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, issued 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 component unit 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 audits provide a reasonable basis for our opinion.

The component unit financial statements present only the Water Department and are not intended to present fairly the financial position and results of operations of the City of Tontitown, Arkansas in conformity with generally accepted accounting principles.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Water Department of the City of Tontitown, Arkansas as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 13, 2001, on our consideration of the Water Department of the City of Tontitown, Arkansas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Daniel R. McCormick, CPA, PA

Daniel R. McCormick, CPA, PA
Fayetteville, Arkansas
February 13, 2001

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
BALANCE SHEETS
December 31, 2000 and 1999

ASSETS

	<u>2000</u>	<u>1999</u>
CURRENT ASSETS		
General revenue fund	\$ 206,925	\$ 193,463
Operations and maintenance fund	13,814	5,640
Investments	-	34,452
Accounts receivable - net of allowance for losses of \$700 and \$700, respectively	22,373	17,650
Deposit	750	750
Inventory	<u>500</u>	<u>500</u>
Total current assets	<u>244,362</u>	<u>252,455</u>
RESTRICTED ASSETS		
Meter deposits	17,943	17,241
Depreciation fund		
Cash	48,293	64,542
Certificates of deposit	61,664	112,079
Capital Improvements Fund		
Cash	3,367	26,811
Certificates of deposit	24,695	22,783
1971 and 1975 revenue bond and interest sinking fund		
Cash	2,977	3,657
Certificates of deposit	<u>30,450</u>	<u>28,876</u>
Total restricted assets	<u>189,389</u>	<u>275,989</u>
FIXED ASSETS		
Water System	1,493,766	1,341,581
Less: Accumulated Depreciation	<u>(322,676)</u>	<u>(287,890)</u>
	<u>1,171,090</u>	<u>1,053,691</u>
OTHER ASSETS	<u>3,500</u>	<u>-</u>
Total assets	<u>\$1,608,341</u>	<u>\$1,582,135</u>

LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS

	<u>2000</u>	<u>1999</u>
CURRENT LIABILITIES		
Accounts payable	\$ 7,105	\$ 10,887
Accrued liabilities	<u>1,467</u>	<u>1,454</u>
 Total current liabilities	 <u>8,572</u>	 <u>12,341</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	16,328	16,149
Water revenue bonds payable	<u>8,049</u>	<u>6,904</u>
 Total current liabilities payable from restricted assets	 <u>24,377</u>	 <u>23,053</u>
LONG-TERM DEBT		
Water revenue bonds payable	<u>111,520</u>	<u>120,569</u>
 Total liabilities	 <u>144,469</u>	 <u>155,963</u>
CONTRIBUTIONS AND RETAINED EARNINGS		
Contributions	<u>583,733</u>	<u>582,083</u>
Retained earnings		
Reserved for revenue bond retirement	20,576	20,576
Reserved for replacements and improvements	189,242	189,242
Unreserved	<u>670,321</u>	<u>634,271</u>
 Total contributions and retained earnings	 <u>880,139</u>	 <u>844,089</u>
 Total contributions and retained earnings	 <u>1,463,872</u>	 <u>1,426,172</u>
 Total liabilities, contributions and retained earnings	 <u>\$1,608,341</u>	 <u>\$1,582,135</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
STATEMENTS OF INCOME
Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
OPERATING REVENUE		
Water revenue	\$ 244,184	\$ 221,739
Connection fees	3,950	6,550
Other income	<u>4,285</u>	<u>-</u>
Total operating revenue	<u>252,419</u>	<u>228,289</u>
OPERATING EXPENSES		
Water purchases	121,862	106,807
Depreciation	34,787	30,500
Salaries	25,605	19,553
Payroll taxes	1,935	1,496
Office supplies and postage	2,340	2,110
Materials and supplies	12,220	4,761
Machine hire and labor	310	428
Insurance, taxes and bonds	13,346	12,286
Provision for losses on accounts receivable	498	727
Miscellaneous	<u>14,225</u>	<u>8,293</u>
Total operating expenses	<u>227,128</u>	<u>186,961</u>
OPERATING INCOME	<u>25,291</u>	<u>41,328</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	17,133	16,804
Interest Expense	<u>(6,374)</u>	<u>(6,884)</u>
Total non-operating revenues	<u>10,759</u>	<u>9,920</u>
EXCESS OF REVENUES OVER EXPENSES	36,050	51,248
RETAINED EARNINGS, JANUARY 1	<u>844,089</u>	<u>792,841</u>
RETAINED EARNINGS, DECEMBER 31	<u>\$ 880,139</u>	<u>\$ 844,089</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
OPERATING ACTIVITIES:		
Operating income	\$ 25,291	\$ 41,328
Adjustments to reconcile net income to cash:		
Depreciation	34,787	30,500
Provision for uncollectible accounts	498	727
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(5,221)	804
(Increase) decrease in accrued interest	81,381	(9,895)
(Increase) decrease in other assets	(3,500)	-
(Decrease) increase in customer deposits	179	372
(Decrease) increase in accounts payable and accrued expenses	<u>(3,769)</u>	<u>(35,192)</u>
Net cash provided by operating activities	<u>129,646</u>	<u>28,644</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Additions to water system	(152,186)	(35,517)
Principal paid on revenue bonds	(7,904)	(6,594)
Interest expense	(6,374)	(6,885)
Contributions	<u>1,650</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(164,814)</u>	<u>(48,996)</u>
INVESTING ACTIVITIES		
Interest earned on cash deposits	<u>17,133</u>	<u>16,804</u>
Net cash provided by investing activities	<u>17,133</u>	<u>16,804</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(18,035)	(3,548)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>311,354</u>	<u>314,902</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 293,319</u>	<u>\$ 311,354</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 6,374</u>	<u>\$ 6,885</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Water system contributions	<u>\$ 1,650</u>	<u>\$162,000</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2000 and 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Water Department is a component unit of the City of Tontitown, Arkansas. Our engagement did not include an audit of the other funds maintained by the City.

The Water Department 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.

Water customers' ability to honor their obligations to the Water Department is dependent upon the general economic conditions in the areas surrounding the City of Tontitown.

Additions to the water system are recorded at cost and depreciated using the straight-line method over an estimated forty-year life.

The Water Department capitalizes net interest costs and interest earned as part of the cost of constructing various water projects when those costs are material.

2. CASH AND CERTIFICATES OF DEPOSIT

At December 31, 2000, the carrying amounts and bank balances of the Water Department's bank accounts and certificates of deposit were approximately \$410,000. Of the bank balances, \$100,000 was covered by federal depository insurance and \$310,000 was covered by collateral pledged by the depository institution.

All certificates of deposit have one-year maturities. Cost and market values were approximately equal at December 31, 2000.

Cash and restricted cash for cash flow reporting purposes are composed of the following:

	<u>2000</u>	<u>1999</u>
General revenue fund	\$ 206,925	\$ 193,463
Operations and maintenance fund	13,814	5,640
Meter deposits	17,943	17,241
Depreciation fund cash	48,293	64,542
Capital improvements fund cash	3,367	26,811
1971 and 1975 revenue bond and interest sinking fund	<u>2,977</u>	<u>3,657</u>
	<u>\$ 293,319</u>	<u>\$ 311,354</u>

3. WATER REVENUE BONDS PAYABLE

Water revenue bonds payable consisted of the following at December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Water System Revenue Bond, Series 1971 payable to Farmers Home Administration. Annual installments of principal plus accrued interest are due each January 1 until the scheduled maturity on January 1, 2011. Interest rate is fixed at 5%. Bond is collateralized by the water system and its related revenues.	\$ 62,000	\$ 67,000
Water System Revenue Bond, Series 1975 payable to Farmers Home Administration. Annual installments of \$5,928 are due each January 1 until the scheduled maturity on January 1, 2015. Interest rate is fixed at 5%. Bond is collateralized by the water system and its related revenues.	<u>57,569</u>	<u>60,473</u>
	119,569	127,473
Less current maturities	<u>(8,049)</u>	<u>(6,904)</u>
	<u>\$ 111,520</u>	<u>\$ 120,569</u>

Maturities of water system revenue bonds are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2001	8,049
2002	8,202
2003	8,362
2004	8,530
2005	8,707
Thereafter	<u>77,719</u>
	<u>\$ 119,569</u>

4. RESERVED FOR REVENUE BOND RETIREMENT

The reserve for revenue bond retirement is required under the terms of the 1971 and 1975 Water System Revenue Bonds. The minimum required reserve at December 31, 2000 of approximately \$10,928 is the amount necessary to fund the bond principal and interest payments due on January 1, 2001.

5. RESERVED FOR REPLACEMENTS AND IMPROVEMENTS

The reserve for replacements and improvements has been provided by the city council for future replacements and improvements to the water system.