

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2001 and 2000

DANIEL R. McCORMICK, C.P.A., P.A.

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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, 2001 and 2000 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 the United States of America.

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, 2001 and 2000, 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 March 27, 2002, 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, C.P.A., P.A.

Daniel R. McCormick, C.P.A., P.A.
Fayetteville, Arkansas
March 27, 2002

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

December 31, 2001 and 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
CURRENT ASSETS		
General Revenue Fund	\$ 277,194	\$ 206,925
Operations and maintenance fund	12,648	13,814
Accounts receivable-net of allowance for losses of \$700 and \$700, respectively	18,500	22,373
Deposit	750	750
Inventory	500	500
	<hr/>	<hr/>
Total current assets	309,592	244,362
RESTRICTED ASSETS		
Meter deposits	19,557	17,943
Depreciation fund		
Cash	29,538	48,293
Certificates of deposit	65,225	61,664
Capital improvements fund		
Cash	8,446	3,367
Certificates of deposit	26,199	24,695
1971 and 1975 revenue bond and interest sinking fund		
Cash	-	2,977
Certificates of deposit	-	30,450
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Total restricted assets	148,965	189,389
FIXED ASSETS		
Water system	1,872,674	1,493,766
Less: Accumulated Depreciation	(365,238)	(322,676)
	<hr/>	<hr/>
Total fixed assets	1,507,436	1,171,090
OTHER ASSETS		
	<hr/>	<hr/>
	-	3,500
TOTAL ASSETS		
	<hr/> <hr/>	<hr/> <hr/>
	\$1,965,993	\$1,608,341

LIABILITIES, CONTRIBUTIONS AND RETAINED EARNINGS

CURRENT LIABILITIES

Accounts payable	\$ 8,188	\$ 7,105
Accrued liabilities	<u>1,678</u>	<u>1,467</u>

Total Current Liabilities	<u>9,866</u>	<u>8,572</u>
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CURRENT LIABILITIES PAYABLE FROM
RESTRICTED ASSETS

Meter deposits	17,426	16,328
Water revenue bonds payable	<u>-</u>	<u>8,049</u>

Total current liabilities payable from restricted assets	17,426	24,377
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LONG-TERM DEBT

Water revenue bonds payable	<u>-</u>	<u>111,520</u>
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TOTAL LIABILITIES	<u>27,292</u>	<u>144,469</u>
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CONTRIBUTIONS AND RETAINED EARNINGS

Contributions	<u>1,009,976</u>	<u>583,733</u>
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Retained earnings

Reserved for revenue bond retirement	-	20,576
Reserved for replacements and improvements	189,242	189,242
Unreserved	<u>739,483</u>	<u>670,321</u>

Total retained earnings	<u>928,725</u>	<u>880,139</u>
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Total contributions and retained earnings	<u>1,938,701</u>	<u>1,463,872</u>
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TOTAL LIABILITIES, CONTRIBUTIONS AND
RETAINED EARNINGS

<u>\$ 1,965,993</u>	<u>\$ 1,608,341</u>
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See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS

STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUE		
Water revenue	\$ 235,057	\$ 244,184
Connection fees	19,400	3,950
Tapping fees	6,775	-
Other income	<u>2,430</u>	<u>4,285</u>
Total operating revenue	<u>263,662</u>	<u>252,419</u>
OPERATING EXPENSES		
Water purchases	98,184	121,862
Depreciation	42,562	34,787
Salaries	22,872	25,605
Payroll taxes	1,723	1,935
Office supplies and postage	2,632	2,340
Materials and supplies	19,562	12,220
Machine hire and labor	1,370	310
Insurance, taxes and bonds	15,789	13,346
Provision for losses on accounts receivable	860	498
Miscellaneous	<u>17,554</u>	<u>14,225</u>
Total operating expenses	<u>223,108</u>	<u>227,128</u>
OPERATING INCOME	<u>40,554</u>	<u>25,291</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	12,484	17,133
Interest Expense	<u>(4,452)</u>	<u>(6,374)</u>
Total non-operating revenues	<u>8,032</u>	<u>10,759</u>
EXCESS OF REVENUES OVER EXPENSES	48,586	36,050
RETAINED EARNINGS, JANUARY 1	<u>880,139</u>	<u>844,089</u>
RETAINED EARNINGS, DECEMBER 31	<u>\$ 928,725</u>	<u>\$ 880,139</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
OPERATING ACTIVITIES:		
Operating Income	\$ 40,554	\$ 25,291
Adjustments to reconcile net income to cash:		
Depreciation	42,562	34,787
Provision for uncollectible accounts	860	498
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	3,013	(5,221)
(Increase) decrease in accrued interest	(5,065)	(3,486)
(Increase) decrease in other assets	3,500	(3,500)
(Decrease) increase in customer deposits	1,098	179
(Decrease) increase in accounts payable and accrued expenses	1,293	(3,769)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>87,815</u>	<u>44,779</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to water system	(225,201)	(152,186)
Principal paid on revenue bonds	-	(7,904)
Interest expense	-	(6,374)
Contributions	148,515	1,650
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(76,686)</u>	<u>(164,814)</u>
INVESTING ACTIVITIES:		
Interest earned on cash deposits	12,484	17,133
Maturity of certificate of deposit	30,450	84,867
NET CASH USED IN INVESTING ACTIVITIES	<u>42,934</u>	<u>102,000</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	54,063	(18,035)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>293,319</u>	<u>311,354</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 347,382</u>	<u>\$ 293,319</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 4,452</u>	<u>\$ 6,374</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTMENT AND FINANCING ACTIVITIES:		
Water system contributions	<u>\$ 153,707</u>	<u>\$ 1,650</u>
Revenue bonds retired by taxpayer	<u>\$ 124,021</u>	<u>\$ -</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2001 and 2000

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, 2001, the carrying amounts and bank balances of the Water Department's bank accounts and certificates of deposit were approximately \$435,000. Of the bank balances, \$100,000 was covered by federal depository insurance and \$335,000 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, 2001.

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

	<u>2001</u>	<u>2000</u>
General revenue fund	\$ 277,194	\$ 206,925
Operations and maintenance fund	12,647	13,814
Meter deposits	19,558	17,943
Depreciation fund cash	29,538	48,293
Capital improvements fund cash	8,445	3,367
1971 and 1975 revenue bond and interest sinking fund	<u>-</u>	<u>2,977</u>
	<u>\$ 347,382</u>	<u>\$ 293,319</u>

3. WATER SYSTEM

The City of Tontitown paid \$148,516 towards the purchase and installation of new water lines. This has been recorded as a capital contribution. A contribution of \$153,707 was also recognized for water systems installed in commercial subdivisions and contributed to the water department by the developers.

4. WATER REVENUE BONDS PAYABLE

Water revenue bonds payable consisted of the following at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</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
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>-</u>	<u>57,569</u>
		119,569
Less current maturities	<u>-</u>	<u>(8,049)</u>
	<u>\$ -</u>	<u>\$ 111,520</u>

The Water System Revenue Bond Series 1971 and 1975 were paid-off in 2001 by a resident of Tontitown. The \$124,021 payment to retire principal and accrued interest has been recorded as a contribution.

5. 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 1971 and 1975 Water System Revenue Bonds were paid off in 2001. Accordingly, the requirement to maintain these reserves has been satisfied. The reserve was transferred to unreserved retained earnings.

6. 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.