

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2004 and 2003

**Water Department of the City of Tontitown, Arkansas
December 31, 2004**

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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, 2004 and 2003 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, 2004 and 2003, 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 18, 2005, 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.
Fayetteville, Arkansas
August 18, 2005

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
BALANCE SHEETS
December 31, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
General Revenue Fund	\$ 239,685	\$ 268,474
Operations and maintenance fund	33,948	9,347
Accounts receivable-net of allowance for losses of \$700 and \$700, respectively	22,493	20,375
Sales taxes receivable	44,796	-
Deposit	750	750
Inventory	500	500
	<hr/>	<hr/>
Total current assets	342,172	299,446
	<hr/>	<hr/>
RESTRICTED ASSETS		
Meter deposits	19,193	17,661
Depreciation fund		
Cash	15,856	8,144
Certificates of deposit	69,590	68,533
Capital improvements fund		
Cash	24,448	243,301
Certificates of deposit	28,092	27,663
Water and sewer fund cash	874,847	717,572
	<hr/>	<hr/>
Total restricted assets	1,032,026	1,082,874
	<hr/>	<hr/>
Investment in Osage Basin Wastewater District	85,000	85,000
	<hr/>	<hr/>
FIXED ASSETS		
Sewer system	242,245	226,675
Water system	2,958,668	2,553,575
Less: Accumulated Depreciation	(539,427)	(471,368)
	<hr/>	<hr/>
Total fixed assets	2,661,486	2,308,882
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 4,120,684</u>	<u>\$ 3,776,202</u>

See accompanying notes to financial statements.

<u>LIABILITIES, CONTRIBUTIONS AND NET ASSETS</u>	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Accounts payable	\$ 8,253	\$ 321,477
Accrued liabilities	<u>2,012</u>	<u>1,893</u>
Total Current Liabilities	<u>10,265</u>	<u>323,370</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	16,409	15,003
Water revenue bonds payable	<u>3,967</u>	<u>3,743</u>
Total current liabilities payable from restricted assets	20,376	18,746
LONG-TERM DEBT		
Water revenue bonds payable	<u>257,569</u>	<u>261,536</u>
TOTAL LIABILITIES	<u>288,210</u>	<u>603,652</u>
 CONTRIBUTIONS AND NET ASSETS		
Contributions	<u>881,710</u>	<u>881,710</u>
Net assets		
Invested in capital assets, net of related debt	2,399,951	2,028,601
Restricted for debt service	83,071	75,401
Unrestricted	<u>467,742</u>	<u>186,838</u>
Total net assets	<u>2,950,764</u>	<u>2,290,840</u>
Total contributions and net assets	<u>3,832,474</u>	<u>3,172,550</u>
TOTAL LIABILITIES, CONTRIBUTIONS AND NET ASSETS	<u><u>\$ 4,120,684</u></u>	<u><u>\$ 3,776,202</u></u>

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

For the Years Ended December 31, 2004 and 2003

See accompanying notes to financial statements.

	<u>2004</u>	<u>2003</u>
OPERATING REVENUE		
Water revenue	\$ 289,668	\$ 261,459
Connection fees	48,100	35,500
Tapping fees	7,150	10,250
Sales tax revenue	625,976	420,274
Other income	10,534	4,600
	<u>981,428</u>	<u>732,083</u>
OPERATING EXPENSES		
Water purchases	135,750	112,580
Depreciation	68,059	56,413
Salaries	29,148	23,781
Payroll taxes	2,450	1,828
Office supplies and postage	7,812	2,874
Materials and supplies	35,838	27,110
Machine hire and labor	1,178	616
Insurance, taxes and bonds	20,064	16,890
Provision for losses on accounts receivable	-	693
Miscellaneous	14,784	19,159
	<u>315,083</u>	<u>261,944</u>
Total operating expenses	<u>315,083</u>	<u>261,944</u>
OPERATING INCOME		
	<u>666,345</u>	<u>470,139</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	9,176	14,891
Interest Expense	(15,597)	(16,524)
	<u>(6,421)</u>	<u>(1,633)</u>
Total non-operating revenues	<u>(6,421)</u>	<u>(1,633)</u>
EXCESS OF REVENUES OVER EXPENSES		
	659,924	468,506
NET ASSETS, JANUARY 1		
	<u>2,290,840</u>	<u>1,822,334</u>
NET ASSETS, DECEMBER 31		
	<u>\$ 2,950,764</u>	<u>\$ 2,290,840</u>

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

See accompanying notes to financial statements.

OPERATING ACTIVITIES:		
Operating Income	\$ 666,345	\$ 470,139
Adjustments to reconcile net income to cash:		
Depreciation	68,059	56,413
Provision for uncollectible accounts	-	693
Changes in assets and liabilities:		
Accounts receivable	(2,118)	(562)
Sales taxes receivable	(44,796)	-
Accrued interest	(1,486)	(1,819)
Customer deposits	1,407	(3,326)
Accounts payable and accrued expenses	(313,106)	314,848
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>374,305</u>	<u>836,386</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to water system	(405,093)	(329,195)
Additions to sewer system	(15,570)	(226,675)
Investment in Osage Basin Wastewater District	-	(40,000)
Principal paid on revenue bonds	(3,743)	(2,948)
Interest expense	(15,597)	(16,525)
Contributions	-	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(440,003)</u>	<u>(615,343)</u>
INVESTING ACTIVITIES:		
Interest earned on cash deposits	9,176	14,891
Gain on Sale of Fixed Assets	-	-
NET CASH USED IN INVESTING ACTIVITIES	<u>9,176</u>	<u>14,891</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(56,522)	235,934
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>1,264,499</u>	<u>1,028,565</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u>\$ 1,207,977</u>	<u>\$ 1,264,499</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 15,597</u>	<u>\$ 16,525</u>

See accompanying notes to financial statements.

WATER DEPARTMENT OF THE CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2004 and 2003

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, 2004, the carrying amount and bank balance of the Water Department's bank accounts and certificates of deposit were approximately \$1,304,000. Of the bank balances, \$200,000 was covered by federal depository insurance and \$1,104,000 was covered by collateral pledged by the depository institutions.

All certificates of deposit have one-year maturities. Cost and market values were approximately equal at December 31, 2004.

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

	<u>2004</u>	<u>2003</u>
General revenue fund	\$ 239,685	\$ 268,474
Operations and maintenance fund	33,948	9,347
Depreciation fund cash	15,856	8,144
Meter deposits	19,193	17,661
Capital improvements fund cash	24,448	243,301
Water and sewer fund cash	<u>874,847</u>	<u>717,572</u>
	<u>\$ 1,207,977</u>	<u>\$ 1,264,499</u>

3. INVESTMENTS

The City of Tontitown Water Department has invested in an entity, the Osage Basin Wastewater Treatment District, which has been created to develop and build a wastewater treatment facility. The cities of Cave Springs and Highfill, Arkansas are partners in the project. This project is in the development stage.

4. WATER AND SEWER SYSTEMS

The City of Tontitown Water Department paid \$405,093 towards the purchase and installation of new water lines and \$15,570 for engineering and other services related to the development and construction of the wastewater collection system.

5. WATER REVENUE BONDS PAYABLE

Water revenue bonds payable consisted of the following at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Water System Revenue Bond, serviced by Regions Bank and payable to the Arkansas Soil and Water Conservation Commission. Semi-annual installments of principal plus accrued interest are due each June 1 and December 1 until the scheduled maturity on June 1, 2032. Interest rate is fixed at 5.9%. Bond is collateralized by the water system and its related revenues.	<u>261,536</u>	<u>265,279</u>
	261,536	265,279
Less current maturities	<u>(3,967)</u>	<u>(3,743)</u>
	<u>\$ 259,569</u>	<u>\$ 261,536</u>

Debt service requirements at December 31, 2004 were as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2005	3,967	15,373
2006	4,205	15,135
2007	4,456	14,884
2008	4,723	14,617
2009 to 2013	28,211	68,489
2014 to 2018	37,730	58,970
2019 to 2023	50,460	46,240
2024 to 2028	67,486	29,214
2029 to 2032	<u>60,298</u>	<u>7,314</u>
Total	<u>\$261,536</u>	<u>\$270,236</u>

6. CONTINGENCIES

Significant losses are covered by commercial insurance for all major programs for which the Water Fund retains risk loss. For insured programs, there have been no significant reductions in insurance coverage.