

**TONTITOWN WATER & SEWER
COMMISSION**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2006 and 2005

Tontitown Water & Sewer Commission
December 31, 2006 and 2005

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To the Chairman
Tontitown Water & Sewer Commission
Tontitown, Arkansas

We have audited the accompanying financial statements of the **Tontitown Water & Sewer Commission**, a component unit of the City of Tontitown, Arkansas as of December 31, 2006 and 2005 and for the years then ended. These component unit financial statements are the responsibility of the **Tontitown Water & Sewer Commission'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, 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 **Tontitown Water & Sewer Commission** 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 **Tontitown Water & Sewer Commission** as of December 31, 2006 and 2005, 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 28, 2007, on our consideration of the **Tontitown Water & Sewer Commission'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.

Daniel R. McCormick, C.P.A., P.A.
March 28, 2007

TONTITOWN WATER & SEWER COMMISSION
BALANCE SHEETS
December 31, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Petty Cash	\$ 187	\$ 1,200
General Revenue Fund	385,905	303,792
Accounts receivable-net of allowance for losses of \$700 and \$700, respectively	21,564	18,420
Sales taxes receivable	69,400	125,109
Inventory	<u>35,941</u>	<u>27,601</u>
Total current assets	<u>512,997</u>	<u>476,122</u>
RESTRICTED ASSETS		
Meter deposits		
Cash	27,646	24,230
Certificates of deposit	4,235	4,922
Depreciation fund		
Cash	38,302	25,753
Certificates of deposit	-	71,244
Capital improvements fund		
Cash	8,560	8,490
Certificates of deposit	-	28,667
Construction fund	4,915,809	5,708,792
Cost of issuance fund	-	27,632
Debt service fund	194,452	194,766
Sales & use tax fund	91,764	56,420
Water and sewer fund cash	<u>1,996,568</u>	<u>2,187,802</u>
Total restricted assets	<u>7,277,336</u>	<u>8,338,718</u>
Investment in Osage Basin Wastewater District	<u>-</u>	<u>85,000</u>
FIXED ASSETS		
Equipment	117,980	6,893
Sewer system	1,993,835	322,912
Water system	4,043,713	3,141,706
Less: Accumulated Depreciation	<u>(721,291)</u>	<u>(614,791)</u>
Total fixed assets	<u>5,434,237</u>	<u>2,856,720</u>
OTHER ASSETS		
Unamortized bond issue cost-net of accumulated amortization	33,656	34,915
Unamortized underwriter discount-net of accumulated amortization	85,982	89,196
Other assets	<u>1,350</u>	<u>3,550</u>
Total other assets	<u>120,988</u>	<u>127,661</u>
TOTAL ASSETS	<u><u>\$ 13,345,558</u></u>	<u><u>\$ 11,884,221</u></u>

<u>LIABILITIES, CONTRIBUTIONS AND NET ASSETS</u>	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 35,620	\$ 112,859
Accrued liabilities	68,489	93,622
Total Current Liabilities	<u>104,109</u>	<u>206,481</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	590,823	-
Meter deposits	36,952	29,306
Water revenue bonds payable	144,456	139,206
Total current liabilities payable from restricted assets	<u>772,231</u>	<u>168,512</u>
LONG-TERM DEBT		
Water & sewer revenue bonds payable	<u>5,972,523</u>	<u>6,118,363</u>
TOTAL LIABILITIES	<u>6,848,863</u>	<u>6,493,356</u>
CONTRIBUTIONS AND NET ASSETS		
Contributions	<u>881,710</u>	<u>881,710</u>
Net assets		
Invested in capital assets, net of related debt	3,511,335	2,599,151
Restricted for debt service	194,453	194,767
Unrestricted	1,909,197	1,715,237
Total net assets	<u>5,614,985</u>	<u>4,509,155</u>
Total contributions and net assets	<u>6,496,695</u>	<u>5,390,865</u>
TOTAL LIABILITIES, CONTRIBUTIONS AND NET ASSETS	<u>\$ 13,345,558</u>	<u>\$ 11,884,221</u>

See accompanying notes to financial statements.

TONTITOWN WATER & SEWER COMMISSION
STATEMENTS OF INCOME
For the Years Ended December 31, 2006 and 2005

	2006	%	2005	%
OPERATING REVENUES				
Water revenue	\$ 435,610	87.53%	\$ 357,430	84.12%
Connection fees	30,400	6.11%	33,356	7.85%
Tapping fees	8,721	1.75%	9,425	2.22%
Other income	22,954	4.61%	24,675	5.81%
Total operating revenues	497,685	100.00%	424,886	100.00%
OPERATING EXPENSES				
Advertising	-	0.00%	867	0.20%
Amortization	4,473	0.90%	1,118	0.26%
Auto expense	2,998	0.60%	1,433	0.34%
Bad debts	1,553	0.31%	-	0.00%
Bank service charges	729	0.15%	1,041	0.25%
Bond processing fees	5,460	1.10%	380	0.09%
Computer support	7,995	1.61%	8,714	2.05%
Depreciation	106,500	21.40%	75,364	17.74%
Dues & subscriptions	8,493	1.71%	4,866	1.15%
Insurance, taxes and bonds	42,183	8.48%	27,668	6.51%
Machine hire and labor	15,046	3.02%	2,175	0.51%
Materials and supplies	41,216	8.28%	22,532	5.30%
Miscellaneous	1,495	0.30%	4,270	1.00%
Office supplies and postage	11,772	2.37%	6,233	1.47%
Payroll taxes	6,864	1.38%	5,024	1.18%
Professional fees	30,927	6.21%	12,839	3.02%
Repairs & maintenance	2,542	0.51%	-	0.00%
Salaries	81,092	16.29%	51,258	12.06%
Travel & education	-	0.00%	4,194	0.99%
Utilities	1,086	0.22%	975	0.23%
Water purchases	175,572	35.28%	168,041	39.55%
Total operating expenses	547,996	110.11%	398,992	93.91%
OPERATING (LOSS) INCOME	(50,311)	-10.11%	25,894	6.09%
NON-OPERATING REVENUES (EXPENSES)				
Sales tax revenue	1,045,607	210.09%	742,199	174.68%
Contributions from the City of Tontitown	-	0.00%	800,000	188.29%
Interest Income	357,752	71.88%	68,623	16.15%
Interest Expense	(247,218)	-49.67%	(78,325)	-18.43%
Total non-operating revenues	1,156,141	232.30%	1,532,497	360.68%
EXCESS OF REVENUES OVER EXPENSES	1,105,830	222.19%	1,558,391	366.78%
NET ASSETS, JANUARY 1	4,509,155		2,950,764	
NET ASSETS, DECEMBER 31	\$ 5,614,985		\$ 4,509,155	

See accompanying notes to financial statements

TONTITOWN WATER & SEWER COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING ACTIVITIES:		
Cash received from customers	\$ 552,450	\$ 218,013
Cash paid to suppliers and employees	(540,089)	(140,498)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,361	77,515
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to water system	(902,007)	(183,038)
Additions to sewer system	(1,080,100)	(80,667)
Additions to equipment	(111,087)	(6,892)
2005 Revenue bond	-	6,000,000
Principal paid on revenue bonds	(140,590)	(3,967)
Sales tax revenue	1,045,607	742,199
Contributions from the City of Tontitown	-	800,000
Interest expense	(247,218)	(78,325)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,435,395)	7,189,310
INVESTING ACTIVITIES:		
CD maturities	100,597	-
Interest earned on cash deposits	357,752	68,623
Purchase of investments	-	(4,548)
Sale of investments	85,000	-
NET CASH USED IN INVESTING ACTIVITIES	543,349	64,075
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(879,685)	7,330,900
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	8,538,877	1,207,977
CASH AND RESTRICTED CASH, END OF YEAR	\$ 7,659,192	\$ 8,538,877
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (Loss) Income	\$ (50,311)	\$ 25,894
Adjustments to reconcile net income to cash:		
Amortization	4,473	1,118
Depreciation	106,500	75,363
Changes in assets and liabilities:		
Accounts receivable	(3,144)	4,073
Sales taxes receivable	55,709	(80,313)
Other assets	2,200	(128,029)
Inventory	(8,340)	(27,101)
Accrued interest	-	(2,603)
Customer deposits	7,646	12,896
Accounts payable and accrued expenses	(102,372)	196,217
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 12,361	\$ 77,515
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	\$ 265,558	\$ 78,325
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Sewer system additions included in accounts payable	\$ 590,823	\$ -

See accompanying notes to financial statements.

TONTITOWN WATER & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Commission 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 Commission 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 Commission is dependent upon the general economic conditions in the areas surrounding the City of Tontitown.

Inventory is valued at cost.

Depreciation is computed on the straight-line method over the estimated lives of the related assets. The estimated useful lives are as follows:

Equipment	5-7 years
Sewer system	40 years
Water system	40 years

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

Certain reclassifications have been made to the 2005 financial statements to conform to the classifications used in 2006. Sales tax revenue has been moved from operating revenues to non-operating revenues.

2. CASH AND CERTIFICATES OF DEPOSIT

At December 31, 2006, the carrying amount and bank balance of the Commission's bank accounts and certificates of deposit were approximately \$7,732,829. Of the bank balances, \$200,000 was covered by federal depository insurance and \$7,532,829 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, 2006.

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

	<u>2006</u>	<u>2005</u>
Petty Cash	\$ 187	\$ 1,200
Operations and maintenance fund	385,905	303,792
Depreciation fund cash	38,302	25,753
Meter deposits	27,646	24,230
Capital improvements fund cash	8,559	8,490
Construction fund	4,915,809	5,708,792
Cost of issuance fund	-	27,632
Debt service fund	194,452	194,766
Sales & use tax fund	91,764	56,420
Water and sewer fund cash	<u>1,996,568</u>	<u>2,187,802</u>
	<u>\$ 7,659,192</u>	<u>\$ 8,538,877</u>

3. INVESTMENTS

The Commission 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. The Board approved the city's withdrawal from the Osage Basin Wastewater District on December 6, 2005 and the \$85,000 investment was refunded in March 2006.

4. FIXED ASSETS

	<u>01/01/2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2006</u>
Equipment	\$ 6,893	\$ 111,087	\$ -	\$ 117,980
Sewer system	322,912	1,670,923	-	1,993,835
Water system	3,141,706	902,007	-	4,043,713
Accumulated depreciation	<u>(614,791)</u>	<u>(106,500)</u>	<u>-</u>	<u>(721,291)</u>
Net fixed assets	<u>\$2,856,720</u>	<u>\$2,577,517</u>	<u>\$ -</u>	<u>\$5,434,237</u>

Depreciation expense for equipment and water system was \$106,500 for the year ended December 31, 2006. The sewer system is under construction and depreciation will begin upon completion. Capitalized interest accounted for \$17,344 of the additions to sewer system.

5. WATER REVENUE BONDS PAYABLE

Water revenue bonds payable consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</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, 2027. Interest rate is fixed at 4.6%. Bond is collateralized by the water system and its related revenues.	\$ 251,979	\$ 257,569
Sewer System Revenue Bonds, serviced by Bank of the Ozarks and payable to Cede and Company. Bonds are collateralized by 75% of the net collections of the 1% sales and use tax levied within the city of Tontitown. Installments of accrued interest are due each April and installments of principal plus accrued interest are due each October until the final scheduled maturity on October 1, 2032. Interest rates are fixed and vary from 2.95% to 4.7%.	<u>5,865,000</u>	<u>6,000,000</u>
	6,116,979	6,257,569
Less current maturities	<u>(144,456)</u>	<u>(139,206)</u>
	<u>\$ 5,972,523</u>	<u>\$ 6,118,363</u>

Debt service requirements at December 31, 2006 were as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	144,456	264,036
2008	156,745	249,527
2009	158,675	251,008
2010	164,083	245,679
2011	169,510	240,013
2012 to 2016	939,687	1,102,385
2017 to 2021	1,148,798	901,001
2022 to 2026	1,415,025	637,203
2027 to 2031	1,650,000	302,490
2032	<u>170,000</u>	<u>16,293</u>
Total	<u>\$6,116,979</u>	<u>\$4,209,635</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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

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

Certified Public Accountant

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To the Chairman
Tontitown Water & Sewer Commission
Tontitown, Arkansas

We have audited the balance sheets of the Tontitown Water & Sewer Commission as of December 31, 2006 and 2005 and the related statements of income, contributions and retained earnings, and cash flows for the year then ended and have issued our report thereon dated March 28, 2007. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance that the component unit financial statements of the Tontitown Water & Sewer Commission are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Daniel R. McCormick, C.P.A., P.A.

Daniel R. McCormick, C.P.A., P.A.
March 28, 2007