

CITY OF TONTITOWN, ARKANSAS

MANAGEMENT DISCUSSION AND ANALYSIS,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2010

CITY OF TONTITOWN, ARKANSAS
 FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
 DECEMBER 31, 2010

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Independent Auditor's Report

Honorable Tommy Granata, Mayor and
Members of the City Council
City of Tontitown
Tontitown, Arkansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tontitown, Arkansas, (City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Tontitown's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 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 respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Tontitown, Arkansas as of December 31, 2010 and the respective changes in financial position, and cash flows, where applicable, thereof for the year 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 May 31, 2011 on our consideration of the City of Tontitown, Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 7 and budgetary comparison information on pages 24 through 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Fayetteville, Arkansas
May 31, 2011

CITY OF TONTITOWN, ARKANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

The management of the City of Tontitown (the City) is pleased to present our discussion and analysis of the City's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the City of Tontitown's financial statements which begin on page 8.

This annual report is designed to provide the City Council and Citizens of Tontitown with needed information concerning the financial status of the City. The audit of the City's financial statements for the General and Street Funds is contained herein for the period from January 1, 2010 through December 31, 2010. The City of Tontitown entered into an agreement with Daniel R. McCormick, C.P.A., P.A. to perform the Independent Audit of the City's financial statements for the year 2010. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Tontitown for the fiscal year ended December 31, 2010, are free of material misstatement. The Auditors, as part of their audit of the financial statements for the year 2010, also assisted the Recorder/Treasurer's office in accounting for the capital assets for the City of Tontitown. The Management of the City of Tontitown asserts that the information contained in this report is a true and accurate representation of the City's financial condition. All reports of the annual financial audit shall be filed with the Legislative Auditor within ten days of issuance of the audit report to the Governing Body along with the response of the City Council to the findings reported herein.

The management of the City of Tontitown appreciates the support and dedication of the City Council and will continue to strive to make its processes more efficient and to maintain accurate reporting of financials in order for the Council to perform its fiduciary responsibility for the Citizens of Tontitown.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at December 31, 2010 by \$15,478,535 which is an increase of \$1,856,394 or 13.6% as compared to the prior year.
- As of the close of 2010, the City of Tontitown's governmental funds reported combined ending fund balances of \$4,783,817, and \$2,002,883 of which was reserved.
- Expenditures for equipment and construction totaled \$1,041,021 (including \$563,397 for city and utility infrastructure) for the year. In addition, \$1,444,728 was contributed to the city in the form of utility infrastructure.
- Long-term liabilities (primarily Water & Sewer Commission bonds) decreased by \$169,449 or by 3.1%.
- Cash and equivalents and certificates of deposit increased by \$63,979 or .1%.
- The City had general revenues of \$3,685,568, grants and contributions revenue of \$2,824, charges for services of \$773,708 and program expenses of \$2,605,706 for the year ended December 31, 2010.

Report Layout

In addition to Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, and supplementary information. The first statements presented are highly condensed and provide a government-wide perspective of the City's finances. In the government-wide perspective, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, fire, streets, parks and recreation, museum, building inspections, community development and general government administration. Business-type activities include utilities (water, wastewater, and solid waste). These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

The government-wide financial statements can be found on pages 8 and 9 of this report.

Basic Financial Statements

The Statement of Net Assets focuses on resources available for future operations. Simplistically, this statement presents a snap-shot view of the assets the City owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. A significant difference from fund financial statements is that governmental activities reflect capital assets and long-term liabilities. Also, governmental activities are reported on the accrual basis of accounting.

The Statement of Activities focuses on gross and net costs of City programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which such programs are self-supporting and/or subsidized by general and other revenues.

Fund financial statements focus separately on major governmental funds. Governmental fund statements follow the more traditional presentation of government financial statements. The City's General fund is presented in a separate column as is the Street fund. A budgetary comparison is presented for the general fund and street fund in the required supplementary information.

Statements for the City's proprietary fund (the Water and Sewer Commission) follow the governmental funds and include net assets, revenues, expenses, and changes in net assets, and cash flows.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all City assets and liabilities. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets (the difference between assets and liabilities) as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities - Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and State and Federal grants finance most of these activities.

Business-Type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes, grants, and other money. The two kinds of funds, governmental and proprietary, use different accounting approaches.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the difference between governmental activities and governmental funds in a reconciliation following the financial statement.

Proprietary funds - When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise fund is the same as the business-type activities that will be reported in the government-wide statements but provides more detail and additional information, such as cash flows. Readers are referred to the separately issues financial statements of the Tontitown Water & Sewer Commission for a more complete presentation of that unit's financial position and operations. The Commission's financial statements may be obtained by contacting the Commission's office at Tontitown Water Utilities, P.O. Box 127, Tontitown, Arkansas 72770.

City as a Whole

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer term view of the City's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net assets at a point in time and the changes in net assets over a period of time. The City's net assets, the difference between assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial position is improving or deteriorating.

A condensed version of the Statement of Net Assets at December 31, 2010 and 2009 follows:

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
ASSETS						
Cash and certificates of deposit	\$ 2,520,052	2,421,791	2,671,666	2,705,948	5,191,718	5,127,739
Other assets	394,992	420,942	233,348	254,297	628,340	675,239
Advance to Northwest Arkansas Conservation Authority	-	-	864,620	849,536	864,620	849,536
Capital assets	<u>2,002,883</u>	<u>1,620,151</u>	<u>12,626,351</u>	<u>11,210,767</u>	<u>14,629,234</u>	<u>12,830,918</u>
Total Assets	<u>4,917,927</u>	<u>4,462,884</u>	<u>16,395,985</u>	<u>15,020,548</u>	<u>21,313,912</u>	<u>19,483,432</u>
LIABILITIES						
Current liabilities	134,110	65,113	377,403	302,865	511,513	367,978
Long-term liabilities	-	-	<u>5,323,864</u>	<u>5,493,313</u>	<u>5,323,864</u>	<u>5,493,313</u>
Total Liabilities	<u>134,110</u>	<u>65,113</u>	<u>5,701,267</u>	<u>5,796,178</u>	<u>5,835,377</u>	<u>5,861,291</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,002,044	1,620,151	7,130,024	5,553,284	9,132,907	7,173,435
Restricted	-	-	340,683	308,309	340,683	308,309
Unrestricted	<u>2,780,934</u>	<u>2,777,620</u>	<u>3,224,011</u>	<u>3,362,777</u>	<u>6,004,945</u>	<u>6,140,397</u>
Total Net Assets	<u>\$ 4,783,817</u>	<u>4,397,771</u>	<u>10,694,718</u>	<u>9,224,370</u>	<u>15,478,535</u>	<u>13,622,141</u>

The City's combined net assets increased \$1.86 million to \$15.48 million, a 13.6% increase in 2010. Net assets of the City's governmental activities increased by 5.8% (\$4.78 million compared to \$4.4) in 2010.

Net assets of the business-type activities reflect a \$1.47 million or 15.9% increase (\$10.7 million compared to \$9.2 million). Business-type activities unrestricted net assets decreased by \$138,766, a 4.1% decrease (\$3.22 million compared to \$3.36 million).

A condensed version of the Statement of Activities for the years ending December 31, 2010 and 2009 is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues						
Charges for services	\$ -	-	773,708	712,157	773,708	712,157
Grants and Contributions	2,824	109,429	-	-	2,824	109,429
General revenues						
Taxes	1,229,677	1,160,307	549,164	536,384	1,778,841	1,696,691
State turnback	131,922	128,763	-	-	131,922	128,763
Fees, fines, licenses, and permits	235,578	296,584	-	-	235,578	296,584
Infrastructure contributions	-	-	1,446,230	-	1,446,230	-
Investment earnings	32,925	35,518	44,850	49,257	77,775	84,775
Other	15,222	15,852	-	-	15,222	15,852
Total Revenues	<u>1,648,148</u>	<u>1,746,453</u>	<u>2,813,952</u>	<u>1,297,798</u>	<u>4,462,100</u>	<u>3,044,251</u>
EXPENSES						
General government	217,609	199,498	-	-	217,609	199,498
Public works	267,079	240,892	-	-	267,079	240,892
Public safety	388,152	384,395	-	-	388,152	384,395
Culture and recreation	45,492	51,143	-	-	45,492	51,143
Community development	124,105	144,565	-	-	124,105	144,565
Utilities	-	-	1,563,269	1,382,418	1,563,269	1,382,418
Total expenses	<u>1,042,437</u>	<u>1,020,493</u>	<u>1,563,269</u>	<u>1,382,418</u>	<u>2,605,706</u>	<u>2,402,911</u>
Transfers (out)/in	<u>(219,665)</u>	<u>(201,464)</u>	<u>219,665</u>	<u>201,464</u>	<u>-</u>	<u>-</u>
Increase in net assets	386,046	524,496	1,470,348	116,844	1,856,394	641,340
Beginning net assets	<u>4,397,771</u>	<u>3,873,275</u>	<u>9,224,370</u>	<u>9,107,526</u>	<u>13,622,141</u>	<u>12,980,801</u>
Ending net assets	<u>\$ 4,783,817</u>	<u>4,397,771</u>	<u>10,694,718</u>	<u>9,224,370</u>	<u>15,478,535</u>	<u>13,622,141</u>

Budgetary Highlights

The city has budgeted its 2010 operations using the regulatory basis of accounting, which is a different basis than generally accepted accounting principles. Therefore, the information presented in the Schedules of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual found on pages 25 through 27, and the information in the following paragraph is presented using the same basis of accounting as used in the budget:

Over the course of the year, the City Council revised the budget four times. In total, the general fund's resources or inflows before transfers exceeded the final budget amount by approximately \$15,000. The primary driver for revenue exceeding budget was property tax collections greater than budget of \$7,000 and sales tax collections greater than budget by \$7,000. General fund revenues exceeded expenditures before internal transfers by \$331,000.

General fund expenditures and outflows were \$29,000 less than budget. Internal transfers from the General Fund of \$460,000 to the Street Fund and \$220,000 to the Water and Sewer Commission were executed during the year resulting in a final surplus of resources over charges in the general fund of approximately \$91,000.

Other Highlights

For the year beginning January 1, 2010, Mayor Joe Edgmon continued his term of office. Becky Alston continued her appointment as Recorder/Treasurer which began in June, 2009.

The City allocated \$240,000 from the General Fund for transfer to the Street Fund to aid in street improvements. The Javello Road Improvement project was completed by Sweetser Construction, and the City began improvements to Taldo Loop with a \$489,000 contract awarded to Ground Zero Construction. Though sales tax collections continued their decline from 2008, the City remained committed to providing 40% of a one percent sales tax to be distributed to the Street Fund, 40% to the Water & Sewer Commission and 20% to the General Fund and all of another one percent to the Water and Sewer Commission. The one percent provided to the Water and Sewer Commission remains pledged (75% of net collections) as collateral on the Commission's Sewer System Revenue Bonds. The amount payable on the bonds as of December 31, 2010 was \$5,323,864.

The Northwest Arkansas Conservation Authority (NACA), of which the City is a member, completed construction of its regional wastewater treatment plant. The W & S operating loss increased \$106,778 compared to 2009. This increase is primarily due to increased sewer treatment cost (due to commencement of NACA operations) and depreciation.

The City continues its long-term relationships through inter-local agreements with the Washington County Sheriff's Department providing Police Protection for the City of Tontitown and the Tontitown Area Voluntary Fire Department for Fire Protection.

Staffing continued to be an issue for the City Administration with turnover in the Building and Planning Departments. Bruce Hedrick resigned his position as Code Enforcement, and was replaced by Terry Gosnell. In May, 2010, Todd Witzigman resigned as Building Official and was replaced by Terry Gosnell. Mr. Gosnell resigned at the end of 2010 and the Building Official position was filled through contract labor.

Capital Assets and Debt Administration

Capital Assets

At December 31, 2010, the City had \$14.6 million invested in capital assets including police and fire equipment, buildings, park facilities, roads, and utility plant and equipment. This represents a net increase of \$1.8 million, or 14% over 2009.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Water and sewer system	\$ -	-	11,985,853	10,776,363	11,985,853	10,776,363
Land and buildings	474,342	489,761	319,120	85,787	793,462	575,548
Equipment	170,933	170,315	306,347	320,844	477,280	491,159
Infrastructure	1,114,350	688,303	-	-	1,114,350	688,303
Construction in progress	237,168	271,772	15,031	27,773	252,199	299,545
Totals	<u>\$ 1,996,793</u>	<u>1,620,151</u>	<u>12,626,351</u>	<u>11,210,767</u>	<u>14,623,144</u>	<u>12,830,918</u>

Debt Outstanding

At year end 2010, the City had \$5.5 million in water and sewer bonds outstanding. The City paid down approximately \$169,000 in principal on debt outstanding in 2010. No additional debt was incurred in 2010.

Additional information on the City's long-term liabilities is presented in Note 8 to the financial statements.

Economic Factors and Management Strategies

The slowdown in the economy including residential and commercial development continued to have its effect in 2010. This is reflected in reduced sales and franchise tax revenue as well as reduced fees and permit revenue.

Efforts have been made by the staff and Governing Body of the City to reduce expenditures and to continue searching for ways to increase revenues to support city services and operations.

The City is continuing to remain proactive in execution of strategies and continuing to develop and adjust strategic plans to meet the needs of those served by City government. Although development in the City has slowed considerably from the record growth recently experienced in the past, we believe the long-term prognosis for the City is continued growth at more consistent levels.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact Becky Alston, the City Recorder/Treasurer at 235 E. Henri De Tonti Blvd., P.O. Box 305, Tontitown, Arkansas 72770.

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF NET ASSETS
December 31, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash including time deposits	\$ 1,866,362	2,347,170	4,213,532
Certificates of deposit	653,690	-	653,690
Accounts receivable	388,033	96,782	484,815
Prepaid expenses	6,959	-	6,959
Inventories, at cost	-	33,967	33,967
Total current assets	<u>2,915,044</u>	<u>2,477,919</u>	<u>5,392,963</u>
Restricted assets:			
Cash including time deposits	-	324,496	324,496
Total restricted assets	<u>-</u>	<u>324,496</u>	<u>324,496</u>
Advance to Northwest Arkansas Conservation Authority	-	864,620	864,620
Capital assets net of accumulated depreciation	2,002,883	12,626,351	14,629,234
Other assets:			
Bond Issue cost-net of accumulated amortization	-	28,624	28,624
Underwriter discount-net of accumulated amortization	-	73,125	73,125
Other	-	850	850
Total other assets	<u>-</u>	<u>102,599</u>	<u>102,599</u>
TOTAL ASSETS	<u><u>\$ 4,917,927</u></u>	<u><u>16,395,985</u></u>	<u><u>21,313,912</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 123,335	107,456	230,791
Accrued liabilities	10,775	60,040	70,815
Total current liabilities	134,110	167,496	301,606
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Meter deposits	-	40,401	40,401
Water revenue bonds payable	-	169,506	169,506
Total current liabilities payable from restricted assets	<u>-</u>	<u>209,907</u>	<u>209,907</u>
LONG-TERM DEBT			
Water and sewer revenue bonds payable	-	5,323,864	5,323,864
TOTAL LIABILITIES	<u>134,110</u>	<u>5,701,267</u>	<u>5,835,377</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,002,883	7,130,024	9,132,907
Restricted	-	340,683	340,683
Unrestricted	2,780,934	3,224,011	6,004,945
Total net assets	<u>4,783,817</u>	<u>10,694,718</u>	<u>15,478,535</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,917,927</u></u>	<u><u>\$ 16,395,985</u></u>	<u><u>\$ 21,313,912</u></u>

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business Type Activities	Total
Expenses						
Governmental activities:						
General government	\$ 217,609	-	-	(217,609)	-	(217,609)
Public works	267,079	2,824	-	(264,255)	-	(264,255)
Public safety	388,152	-	-	(388,152)	-	(388,152)
Culture and recreation	45,492	-	-	(45,492)	-	(45,492)
Community development	124,105	-	-	(124,105)	-	(124,105)
Total government activities	1,042,437	2,824	-	(1,039,613)	-	(1,039,613)
Business-type activities:						
Water, Sewer, & Sanitation	773,708	-	-	-	(789,561)	(789,561)
Net program (expense)/revenue	773,708	2,824	-	(1,039,613)	(789,561)	(1,829,174)

General revenues:

Sales and use taxes	917,015	549,164	1,466,179
State turnback	131,922	-	131,922
Property taxes	207,447	-	207,447
Franchise taxes	105,215	-	105,215
Fines and fees	178,244	-	178,244
Licenses and permits	57,334	-	57,334
State tribal assistance grant	-	-	-
Infrastructure contributions	-	1,446,230	1,446,230
Miscellaneous	15,222	-	15,222
Investment earnings	32,925	44,850	77,775

Total general revenues

Total general revenues	1,645,324	2,040,244	3,685,568
Net transfers (out)/in	(219,665)	219,665	-

Change in net assets

Change in net assets	386,046	1,470,348	1,856,394
Net assets - beginning	4,397,771	9,224,370	13,622,141

Net assets - ending

Net assets - ending	\$ 4,783,817	10,694,718	15,478,535
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See auditors report and notes to the financial statements

**CITY OF TONTITOWN, ARKANSAS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

	<u>General</u>	<u>Street</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 812,692	1,053,670	1,866,362
Certificates of deposit	638,690	15,000	653,690
Receivables, net	334,111	53,922	388,033
Prepaid expenses	6,426	533	6,959
Due from other funds	-	12,755	12,755
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,791,919</u>	<u>1,135,880</u>	<u>2,927,799</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 25,509	-	25,509
Accounts payable	17,540	93,041	110,581
Payroll liabilities	10,775	-	10,775
Deferred revenue	172,940	44,593	217,533
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>226,764</u>	<u>137,634</u>	<u>364,398</u>
Fund balances:			
Reserved	-	-	-
Unreserved	1,565,155	998,246	2,563,401
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,565,155</u>	<u>998,246</u>	<u>2,563,401</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,791,919</u>	<u>1,135,880</u>	<u>2,927,799</u>

See auditor's report and notes to the financial statements.

**CITY OF TONTITOWN, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2010**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 2,563,401

Amounts reported for governmental *activities* in the statement of net assets are different because:

Some revenues, such as property taxes, in the governmental funds are deferred because they are not collected within the prescribed time period after year end and are not considered available. On the accrual basis, these revenues are recognized regardless of when they are collected. 217,533

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$2,716,964 and the accumulated depreciation is \$714,081. 2,002,883

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 4,783,817

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2010

	General Fund	Street Fund	Total Governmental Funds
REVENUES			
Property taxes	\$ 168,326	44,909	213,235
Franchise taxes	105,215	-	105,215
Sales taxes	917,015	-	917,015
State turnback	29,423	102,499	131,922
Fees and fines	178,244	-	178,244
Licenses and permits	56,601	-	56,601
Investment earnings	21,440	11,485	32,925
Miscellaneous	5,025	10,198	15,223
Grants and donations	2,824	-	2,824
	<u>1,484,113</u>	<u>169,091</u>	<u>1,653,204</u>
EXPENDITURES			
General government	207,866	-	207,866
Public works	-	184,686	184,686
Public safety	363,516	-	363,516
Culture and recreation	33,750	-	33,750
Community development	117,592	-	117,592
Capital outlay	28,379	489,381	517,760
	<u>751,103</u>	<u>674,067</u>	<u>1,425,170</u>
Total revenues	<u>1,484,113</u>	<u>169,091</u>	<u>1,653,204</u>
Excess (deficiency) of revenues over expenditures	<u>733,010</u>	<u>(504,976)</u>	<u>228,034</u>
OTHER FINANCING SOURCES (USES)			
Transfers (out)/in	<u>(679,331)</u>	<u>459,666</u>	<u>(219,665)</u>
Net changes in fund balances	53,679	(45,310)	8,369
Fund balance - beginning	<u>1,511,476</u>	<u>1,043,556</u>	<u>2,555,032</u>
Fund balance - ending	<u>\$ 1,565,155</u>	<u>998,246</u>	<u>2,563,401</u>

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	8,369
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues that do not provide current financial resources, such as property taxes, are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		(5,055)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the capital outlays of \$517,759 exceeded depreciation expense of \$135,027 in the period.		<u>382,732</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>386,046</u></u>

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS - WATER AND SEWER COMMISSION
December 31, 2010

ASSETS

CURRENT ASSETS

Cash including time deposits	\$ 2,347,170
Accounts receivable	52,141
Sales tax receivable	44,641
Inventory, at cost	<u>33,967</u>

Total current assets 2,477,919

Restricted assets:

Meter deposits	30,288
Depreciation fund	99,556
Debt service fund	<u>194,652</u>

Total restricted assets 324,496

Advance to Northwest Arkansas Conservation Authority	864,620
Capital assets net of accumulated depreciation	12,626,351

Other assets:

Bond issue cost-net of accumulated amortization	28,624
Underwriter discount-net of accumulated amortization	73,125
Other	<u>850</u>

Total other assets 102,599

TOTAL ASSETS \$ 16,395,985

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 107,456
Accrued liabilities	<u>60,040</u>

Total current liabilities 167,496

CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS

Meter deposits	40,401
Water revenue bonds payable	<u>169,506</u>

Total current liabilities payable from restricted assets 209,907

LONG-TERM DEBT

Water and sewer revenue bonds payable	<u>5,323,864</u>
---------------------------------------	------------------

TOTAL LIABILITIES 5,701,267

NET ASSETS

Invested in capital assets, net of related debt	7,130,024
Restricted	340,683
Unrestricted	<u>3,224,011</u>

Total net assets 10,694,718

TOTAL LIABILITIES AND NET ASSETS \$ 16,395,985

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS - WATER AND SEWER COMMISSION
For the Year Ended December 31, 2010

OPERATING REVENUES	\$ 773,708
COST OF SALES	<u>466,486</u>
GROSS PROFIT	307,222
OPERATING EXPENSES	
Amortization	4,473
Depreciation	363,473
Insurances, taxes and bonds	75,914
Professional fees	52,254
Repairs and maintenance	101,758
Salaries, wages, and payroll taxes	138,169
Other	<u>117,530</u>
Total operating expenses	<u>853,571</u>
OPERATING LOSS	(546,349)
NON-OPERATING REVENUES (EXPENSES)	
Sales tax revenue	549,164
Infrastructure contributions	1,446,230
Investment income	44,850
Interest expense	<u>(243,212)</u>
Total non-operating revenues	<u>1,797,032</u>
TRANSFERS IN	<u>219,665</u>
CHANGE IN NET ASSETS	1,470,348
NET ASSETS-beginning	<u>9,224,370</u>
NET ASSETS-ending	<u><u>\$ 10,694,718</u></u>

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - WATER AND SEWER COMMISSION
For the Year Ended December 31, 2010

OPERATING ACTIVITIES	
Cash received from customers	\$ 781,008
Cash paid to suppliers and employees	<u>(888,947)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(107,939)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to fixed assets	(523,261)
Principal paid on revenue bonds	(163,984)
Sales tax revenue	549,164
Transfers in	219,672
Interest expense	<u>(243,212)</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(161,621)</u>
INVESTING ACTIVITIES	
Interest earned on cash deposits	44,843
Reimbursement of easement acquisition costs	<u>190,435</u>
NET CASH FROM INVESTING ACTIVITIES	<u>235,278</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(34,282)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	<u>2,705,948</u>
CASH AND RESTRICTED CASH, END OF YEAR	<u><u>\$ 2,671,666</u></u>
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (546,349)
Adjustments to reconcile operating loss to cash:	
Provision for bad debts	323
Amortization	4,472
Depreciation	363,473
Changes in assets and liabilities	
Accounts receivable	(7,279)
Sales tax receivable	29,340
Inventory	(5,908)
Accrued interest on advance to Northwest Arkansas Conservation Authority	(15,084)
Customer deposits	4,093
Accounts payable and accrued expenses	<u>64,980</u>
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ (107,939)</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Interest paid	<u><u>\$ 244,113</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:	
Infrastructure contributions	<u><u>\$ 1,444,728</u></u>

See auditor's report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tontitown (the City) was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City including the Water and Sewer Commission.

For financial reporting purposes, the City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. Basic Financial Statements-Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's street, parks and recreation, police, fire, museum and general administrative services are classified as governmental activities. The City's water and sewer services commission board members must be approved by the City Council and therefore the commission is a component unit of the City and is included as business-type activity. A copy of the audited financial statements of the Water and Sewer Commission may be obtained by contacting the Water and Sewer Commission offices. The City has no fiduciary funds and no such funds are included in the Government-Wide financial statements.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property and sales taxes, intergovernmental revenues, interest income, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

B. Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, and fund balance based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. Governmental accounting standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. The various funds are grouped in the financial statements in this report, into two broad fund categories as follows:

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2010

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Street Fund – The Street Fund accounts for property taxes and allocations received from State and County levies. The Street Fund also receives allocations (accounted for as a transfer-in) of sales tax collections received by the city. Revenues are expended for street, drainage, and traffic control operations.

Proprietary Funds

Enterprise Funds - The Enterprise funds (the Water & Sewer Commission) is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Enterprise Fund also receives allocations (accounted for as a transfer-in) of sales tax collections received by the city. Revenues are expended for street, drainage, and traffic control operations. The Enterprise Funds are maintained on the accrual basis, whereas revenue is recognized when earned and expenses when incurred. The Water and Sewer Commission is the only Enterprise Fund included in this report.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

D. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

On or prior to December 1, the Mayor submits to the City Council a proposed operating budget of the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

The budget is taken under advisement by the Council for study and comments.

On or prior to February 1, the budget is legally enacted by action of the council.

Formal budgetary integration is employed as a management control device during the year for the General and Street Funds.

Budgets for the General Fund and Street Fund are adopted on a basis consistent with state regulatory accounting

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2010

basis requirements. Appropriations lapse at the end of each year. Encumbrances outstanding, if any, are accounted for in the succeeding year's budget.

E. Cash and Investments

Monies not needed immediately are invested in certificates of deposit or money market accounts at various local banks. The term of the certificates of deposit is generally one year. Temporary investments are stated at cost which approximates market value. For the purpose of the Statement of Net Assets, cash includes all demand deposits, and savings accounts of the fund. For the purpose of the Proprietary Fund Statement of Cash Flows, cash and cash equivalents includes all demand deposits, savings accounts, and certificates of deposit.

State law generally requires that municipal funds of governmental units be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America.

F. Financial Reporting Entity

For financial reporting purposes, the City includes all funds, account groups, agencies, boards, commissions and authorities that are controlled by or dependent on the City's executive or legislative branches (the Mayor or the Council, respectively). Control by or dependence on the City was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, and obligation of the City to finance any deficits that may occur or receipt of significant subsidies from the City.

G. Receivables

All receivables are reported net of estimated uncollectible amounts.

H. Fixed Assets

In the government wide and proprietary financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets estimated useful life using the straight line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Building and land improvements	7-40 years
Equipment	5-7 years
Utility infrastructure	40 years
Infrastructure	20 years

I. Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to bond trustee accounts, customer deposits, and funds restricted as to their use.

J. Net Assets

Net assets are classified and displayed in three components.

Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - consists of net assets with constraints placed on the use either by external groups, such as

CITY OF TONTITOWN, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS (continued)
 DECEMBER 31, 2010

customers, creditors, grantors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation.

Unrestricted net assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

K. Date of Management's Review

Subsequent events have been evaluated through May 31, 2011, which is the date the financial statements were available to be issued.

NOTE 2: PROPERTY TAX

The amount of property taxes the City can levy is subject to a statutory limitation by the State of Arkansas. The tax levy limitation cannot be increased except by amendment to the State Constitution. The assessed value of taxable property upon which the property tax is levied is determined by the County Assessor. The Assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value. The County Collector collects the tax and remits the collection to the City, net of a collection fee.

Property taxes attach as an enforceable lien in January of the year of assessment for real property and in June of the year of assessment for personal property. Property taxes are collectible beginning the first business day of March of the subsequent year, but are not considered delinquent until after October 10. Property tax is recorded as revenue when received or when the taxes become available. Property taxes are measurable when levied but are not available for expenditure until March of the fiscal year.

NOTE 3: DEPOSITS WITH FINANCIAL INSTITUTIONS

The City has cash deposits, including certificates of deposit held in various banks within the area. Those deposits at December 31, 2010 consist of the following:

	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>
FDIC insured	\$ 250,000	\$ 500,000	\$ 750,000
Collateralized	2,270,052	2,171,666	4,441,718
Total cash on deposit	\$ 2,520,052	\$ 2,671,666	\$ 5,191,718

NOTE 4: ACCOUNTS RECEIVABLE

At December 31, 2010, the components of accounts receivable were as follows:

Due from other government units	\$ 115,488
Due from taxpayers	315,201
Due from customers and other	54,126
	\$ 484,815

NOTE 5: FUND PRESENTATION

For purposes of this financial statement, the General Fund consists of the General Fund and other government funds with the exception of the Street Fund.

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2010

NOTE 6: ADVANCE TO NORTHWEST ARKANSAS CONSERVATION AUTHORITY

The City has advanced funds to the Northwest Arkansas Conservation Authority (NACA), which was created to develop and build a wastewater treatment facility and related collection lines.

	<u>2010</u>
Advance to NACA to obtain grant	\$354,845
State Tribal Assistance Grant funds	433,700
Accrued interest receivable	<u>76,075</u>
	<u>\$864,620</u>

The advance, related matching grant, and accrued interest are recorded as a liability to the City on the books of NACA and were due to be repaid to the City in 2010 together with accrued interest at the prime rate plus 1% (4.25% at December 31, 2010) on the \$354,845 advance. However, under the terms of the service agreement between NACA and the City (Note 9), the City is to be given credit towards the service agreement contract amount for the amount which the Commission has advanced to NACA pursuant to the grant. The terms of the repayment are to be agreed upon between NACA and the Commission, or if there is no agreement, over a period of three years. As of December 31, 2010, no credit had been applied to the service fees. The City's collection system was connected to the NACA system and NACA began treating the Commission's waste water in December, 2010.

NOTE 7: CAPITAL ASSETS

Material capital expenditures are capitalized and depreciated using the straight-line method based on their estimated useful lives. Repairs are expensed as incurred.

Government accounting standards require the City to report and depreciate new infrastructure assets effective January, 2004. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements.

The City of Tontitown has elected not to report major general infrastructure assets acquired prior to January, 2004 retroactively as allowed under government accounting standards.

Capital assets for the year ended December 31, 2010, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 71,969	6,090	-	78,059
Capital assets being depreciated				
Buildings	246,927	-	-	246,927
Building and land improvements	354,393	4,320	-	358,713
Equipment	377,172	45,496	1,191	421,477
Infrastructure	877,523	497,097	-	1,374,620
Construction in progress	271,773	(28,425)	6,180	237,168
Total	2,127,788	518,488	7,371	2,638,905
Less accumulated depreciation	579,606	135,027	552	714,081
Governmental activities capital assets, net	<u>\$1,620,151</u>	<u>389,551</u>	<u>6,819</u>	<u>2,002,883</u>

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2010

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets being depreciated				
Equipment	\$ 427,631	44,447	-	472,078
Utility structure	12,036,890	1,511,028	-	13,547,918
Property and improvements	85,789	236,325	-	322,114
Construction in progress	<u>27,773</u>	<u>(12,742)</u>	-	<u>15,031</u>
Total	12,578,083	1,779,058	-	14,357,141
Less accumulated depreciation	<u>1,367,316</u>	<u>363,474</u>	-	<u>1,730,790</u>
Business-type activities capital assets, net	<u>\$11,210,767</u>	<u>1,415,584</u>	-	<u>12,626,351</u>

NOTE 8: LONG-TERM DEBT

Long-term debt consisted of revenue bonds payable at December 31, 2010 as follows:

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. Principal at December 31, 2009 was \$227,354.	\$ 218,370
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%. Principal at December 31, 2009 was \$5,430,000.	<u>5,275,000</u>
	5,493,370
Less current maturities	<u>(169,506)</u>
	<u>\$ 5,323,864</u>

The following is a summary of changes in long-term debt:

	<u>12/31/09</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/10</u>	<u>Current</u>
Water System Revenue Bond	\$ 227,354	-	8,984	218,370	9,506
Sewer System Revenue Bond	<u>5,430,000</u>	-	<u>155,000</u>	<u>5,275,000</u>	<u>160,000</u>
	<u>\$5,657,354</u>	-	<u>163,984</u>	<u>5,493,370</u>	<u>169,506</u>

Interest expense in the amount of \$243,212 has been included in direct expenses of business-type activities (water, sewer, and sanitation) on the statement of activities.

CITY OF TONTITOWN, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS (continued)
 DECEMBER 31, 2010

Debt service requirements at December 31, 2010 are as follows:

Year Ended	<u>Principal</u>	<u>Interest</u>
<u>December 31,</u>		
2011	169,506	238,234
2012	174,952	232,108
2013	180,420	225,617
2014	185,910	218,753
2015	196,422	211,503
2016 to 2020	1,100,683	932,435
2021 to 2025	1,357,632	678,131
206 to 2030	1,597,845	351,883
2031 to 2032	<u>530,000</u>	<u>32,900</u>
Total	<u>\$5,493,370</u>	<u>\$3,121,564</u>

NOTE 9: COMMITMENTS

At December 31, 2010, the City was contractually committed on a construction contract for road improvements with a remaining contract balance of \$229,944.

On April 24, 2007, the City entered into a service contract with NACA. The agreement as amended provides for the advance to NACA, as discussed in Note 6, and for the treatment of waste water for the City by NACA beginning upon connection of the City's collection system with the completed NACA system. The connection was completed in December, 2010. The agreement also provides that the City will share in the cost of operating the NACA facilities primarily based on the City's pro rata share of treated waste water, that the City will charge its customers at rates adequate to cover the cost of NACA's services (to the extent allowed by law), and that the City will not be required to compensate NACA in amounts in excess of its waste water revenues. Anticipated billings from NACA for 2011 (based on NACA's budget) are approximately \$730,000. The agreement has a term expiring the later of April, 2047 or such time as all NACA debt has been retired.

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements, if any, has not exceeded the insurance coverage for each of the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The City participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission.

CITY OF TONTITOWN, ARKANSAS
NOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2010

Municipal Vehicle Program

- A. Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury or death per person, \$50,000 for bodily injury or death per accident and \$25,000 for property damage per accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the City.

- B. Physical Damage - This program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The City agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

Municipal Property Program - This program covers insurable property and equipment, exclusive of motor vehicles and water vessels, which belong to or are in the care, custody or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$5,000, or in the case of flood or earthquake, \$100,000. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for property for which the municipality desires coverage.

Municipal Legal Defense Program - The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages – not punitive damages) imposed on municipal officials and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials and employees because of judgment in any one lawsuit for more than 25 percent of the program's available funds at time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. The City agrees to pay into the program each year a charge established by the steering committee. Each city also agrees to pay the first \$3,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$250,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$1,000 deductible per occurrence.

CITY OF TONTITOWN, ARKANSAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND
For the Year Ended December 31, 2010

	Budgeted Amounts		Budgetary Basis	Budget to GAAP	GAAP Basis
	Original	Final	Actual	Differences Over/(Under)	Actual
REVENUES					
Property taxes	\$ 185,000	161,000	168,183	143	168,326
Franchise tax	99,000	99,000	97,092	8,123	105,215
Sales tax	821,000	473,000	480,193	436,822	917,015
State turnback	126,700	29,000	29,365	58	29,423
Fees and fines	237,900	194,729	194,717	(16,473)	178,244
Licenses and permits	57,188	56,435	57,334	(733)	56,601
Investment earnings	15,000	20,000	21,440	-	21,440
Miscellaneous	9,500	7,790	5,025	-	5,025
Grants and contributions	-	-	2,824	-	2,824
Total Revenue	<u>1,551,288</u>	<u>1,040,954</u>	<u>1,056,173</u>	<u>427,940</u>	<u>1,484,113</u>
EXPENDITURES					
General government	197,926	208,912	200,983	6,883	207,866
Public safety	368,772	344,012	343,986	19,530	363,516
Culture and recreation	34,591	37,047	33,750	-	33,750
Community development	151,050	124,983	118,218	(626)	117,592
Capital expenditures	45,983	31,320	28,379	-	28,379
Total expenditures	<u>798,322</u>	<u>746,274</u>	<u>725,316</u>	<u>25,787</u>	<u>751,103</u>
Excess (deficiency) of revenues over expenditures	<u>752,966</u>	<u>294,680</u>	<u>330,857</u>	<u>402,153</u>	<u>733,010</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(751,700)	(240,000)	(240,000)	(439,331)	(679,331)
Total other financial sources and (uses)	<u>(751,700)</u>	<u>(240,000)</u>	<u>(240,000)</u>	<u>(439,331)</u>	<u>(679,331)</u>
Net change in fund balance	1,266	54,680	90,857	(37,178)	53,679
Fund balances - beginning	<u>1,511,476</u>	<u>1,511,476</u>	<u>1,372,943</u>	<u>138,533</u>	<u>1,511,476</u>
Fund balances - ending	<u>\$ 1,512,742</u>	<u>1,566,156</u>	<u>1,463,800</u>	<u>101,355</u>	<u>1,565,155</u>

See auditors report and notes to the financial statements.

CITY OF TONTITOWN, ARKANSAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND
ACTUAL STREET FUND
For the Year Ended December 31, 2010

	Budgeted Amounts		Budgetary Basis	Budget to GAAP	GAAP Basis
	Original	Final	Actual	Differences Over/(Under)	Actual
REVENUES					
Property tax	\$ 41,000	48,000	44,899	10	44,909
Sales tax	188,000	-	-	-	-
State turnback	94,700	100,300	102,482	17	102,499
Investment earnings	2,500	11,000	11,485	-	11,485
Miscellaneous	-	10,197	10,198	-	10,198
Grants and contributions	-	-	-	-	-
Total revenue	<u>326,200</u>	<u>169,497</u>	<u>169,064</u>	<u>27</u>	<u>169,091</u>
EXPENDITURES					
Public works	149,450	189,056	184,686	-	184,686
Capital expenditures	766,700	411,122	396,981	92,400	489,381
Total expenditures	<u>916,150</u>	<u>600,178</u>	<u>581,667</u>	<u>92,400</u>	<u>674,067</u>
Excess (deficiency) of revenues over expenditures	<u>(589,950)</u>	<u>(430,681)</u>	<u>(412,603)</u>	<u>(92,373)</u>	<u>(504,976)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	<u>595,000</u>	<u>455,000</u>	<u>463,119</u>	<u>(3,453)</u>	<u>459,666</u>
Net change in fund balance	5,050	24,319	50,516	(95,826)	(45,310)
Fund balances-beginning	<u>1,043,556</u>	<u>1,043,556</u>	<u>1,018,047</u>	<u>25,509</u>	<u>1,043,556</u>
Fund balances-ending	<u>\$ 1,048,606</u>	<u>1,067,875</u>	<u>1,068,563</u>	<u>(70,317)</u>	<u>998,246</u>

See auditors report and notes to the financial statements

CITY OF TONTITOWN, ARKANSAS
 NOTE TO BUDGETARY COMPARISON SCHEDULES
 GENERAL AND STREET FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General</u>	<u>Street</u>
Excess of revenues over expenditures – Actual Amounts Budgetary Basis	\$ 330,857	(412,603)
Revenues are recognized using the regulatory (modified cash) method of accounting for budget purposes, but the GAAP accounting requires use of the modified accrual method	(18,297)	27
Certain expenditures are recognized using the regulatory method of Accounting for budget purposes, but GAAP accounting requires use of the modified accrual method.	(25,787)	(92,400)
Sales tax appropriations are not treated as revenue for budget purposes, but are transfers in on the Statement of Revenues, Expenditures, And Changes in Fund Balances	<u>446,237</u>	<u>-</u>
Excess of revenues over expenditures – Actual Amounts GAAP Basis	<u>\$ 733,010</u>	<u>(504,976)</u>

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Independent Auditor's Report on Compliance with Certain State Statutes

Honorable Tommy Granata, Mayor and
Members of the City Council
City of Tontitown
Tontitown, Arkansas

We have audited the basic financial statements of the City of Tontitown, Arkansas, as of and for the year ended December 31, 2010, and have issued our report thereon dated May 31, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with state laws and regulation applicable to the City of Tontitown, Arkansas, is the responsibility of the City's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with the following state statutes as required by Act 15, Ark. Code annotated 14-58-101:

Municipal Accounting Law, Act 1959 of 1973
Municipal Court and Police Department, Act 332 of 1977
Bonding of Municipal Employees, Act 338 of 1965 and Act 677 of 1975
Improvement Contracts
Budgets and Purchases
Investment of Public Funds
Deposit of Public Funds

However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the City of Tontitown, Arkansas, was in substantial compliance, in all material respects, with the statutes referred to above. With respect to the items not tested, nothing caused us to believe that the City of Tontitown, Arkansas was not in substantial compliance with the statutes referred to above.

This report is intended solely for the information and use of the Mayor and City Council, management and the Arkansas Division of Legislative Audit and is not intended to be and should not be used by anyone other than these specified parties.

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

Fayetteville, Arkansas
May 31, 2011

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

Certified Public Accountant

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

Honorable Tommy Granata, Mayor and
Members of the City Council
City of Tontitown
Tontitown, Arkansas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tontitown, Arkansas as of and for the year ended December 31, 2010, which collectively comprise the City of Tontitown, Arkansas' basic financial statements and have issued our report thereon dated May 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Tontitown, Arkansas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tontitown, Arkansas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tontitown, Arkansas' internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Tontitown's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Tontitown, Arkansas' financial statements that is more than inconsequential will not be prevented or detected by the City of Tontitown, Arkansas' internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting:

Management is responsible for establishing effective internal control over financial reporting. Several individuals within the City have incompatible duties in the financial reporting cycle. Because of the small number of employees, some personnel are responsible for posting general ledger entries, reconciling bank statements, signing checks, making deposits, or any combination of two or more of these duties. While there are documented controls in place intended to mitigate the risk of material misstatements, these controls do not adequately cover all risks of material misstatement. This is a repeat finding.

City officials have responded and indicated that their offices have segregated the duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to the extent possible with the current staffing levels.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Tontitown, Arkansas' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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.

Other Issues

The following issue is not a significant deficiency, material weaknesses or material instance of noncompliance, but is an issue that is presented to assist in the efficient operation of the City.

1. We recommend the addition of a part time bookkeeper to handle a portion of the accounting work load and facilitate better internal control through better segregation of duties.

This report is intended solely for the information and use of the Mayor, City Council, management, and others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Daniel R. McAnnick, C.P.A., P.A.

Fayetteville, Arkansas
May 31, 2011