

**TONTITOWN WATER & SEWER
COMMISSION**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended December 31, 2007 and 2006

Tontitown Water & Sewer Commission
December 31, 2007 and 2006

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INDEPENDENT AUDITOR'S REPORT

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, 2007 and 2006 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, 2007 and 2006, 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 July 14, 2008, 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.
Fayetteville, Arkansas
July 14, 2008

TONTITOWN WATER & SEWER COMMISSION
BALANCE SHEETS
December 31, 2007 and 2006

<u>ASSETS</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
General revenue fund	\$ 232,869	\$ 386,092
Construction fund	1,176,505	4,915,809
Water and sewer fund cash	2,055,998	1,996,568
Accounts receivable-net of allowance for losses of \$700 and \$700, respectively	30,398	21,564
Sales tax receivable	63,885	69,400
Inventory	22,523	35,941
Total current assets	<u>3,582,178</u>	<u>7,425,374</u>
RESTRICTED ASSETS		
Meter deposits		
Cash	32,612	27,646
Certificates of deposit	-	4,235
Depreciation fund	54,172	38,302
Capital improvements fund	61,314	8,560
Debt service fund	194,453	194,452
Sales and use tax fund	121,185	91,764
Total restricted assets	<u>463,736</u>	<u>364,959</u>
Advance to Northwest Arkansas Conservation Authority	<u>692,061</u>	<u>-</u>
FIXED ASSETS		
Equipment	201,893	117,980
Sewer system	5,835,278	1,993,835
Water system	4,107,079	4,043,713
Less: Accumulated depreciation	<u>(843,557)</u>	<u>(721,291)</u>
Total fixed assets	<u>9,300,693</u>	<u>5,434,237</u>
OTHER ASSETS		
Unamortized bond issue cost-net of accumulated amortization	32,398	33,656
Unamortized underwriter discount-net of accumulated amortization	82,768	85,982
Other assets	850	1,350
Total other assets	<u>116,016</u>	<u>120,988</u>
TOTAL ASSETS	<u><u>\$ 14,154,684</u></u>	<u><u>\$ 13,345,558</u></u>

<u>LIABILITIES, CONTRIBUTIONS AND NET ASSETS</u>	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts payable	\$ 29,238	\$ 35,620
Accrued liabilities	<u>73,986</u>	<u>68,489</u>
Total current liabilities	<u>103,224</u>	<u>104,109</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Accounts payable	435,266	590,823
Meter deposits	37,236	36,952
Water revenue bonds payable	<u>153,283</u>	<u>144,456</u>
Total current liabilities payable from restricted assets	<u>625,785</u>	<u>772,231</u>
LONG-TERM DEBT		
Water and sewer revenue bonds payable	<u>5,815,858</u>	<u>5,972,523</u>
TOTAL LIABILITIES	<u>6,544,867</u>	<u>6,848,863</u>
CONTRIBUTIONS AND NET ASSETS		
Contributions	<u>881,710</u>	<u>881,710</u>
Net assets		
Invested in capital assets, net of related debt	3,260,333	3,511,335
Restricted	463,736	364,959
Unrestricted	<u>3,004,038</u>	<u>1,738,691</u>
Total net assets	<u>6,728,107</u>	<u>5,614,985</u>
Total contributions and net assets	<u>7,609,817</u>	<u>6,496,695</u>
TOTAL LIABILITIES, CONTRIBUTIONS AND NET ASSETS	<u>\$ 14,154,684</u>	<u>\$ 13,345,558</u>

See accompanying notes to financial statements.

TONTITOWN WATER & SEWER COMMISSION

STATEMENTS OF INCOME

For the Years Ended December 31, 2007 and 2006

	2007	%	2006	%
OPERATING REVENUES				
Water revenue	\$ 486,659	82.97%	\$ 474,731	95.39%
Sewer revenue	36,550	6.23%	-	0.00%
Solid waste revenue	51,889	8.85%	-	0.00%
Other income	11,481	1.96%	22,954	4.61%
Total operating revenues	586,579	100.00%	497,685	100.00%
COST OF SALES				
Water purchases	188,651	32.16%	175,572	35.28%
Sewer service purchases	8,082	1.38%	-	0.00%
Solid waste reimbursement	44,925	7.66%	-	0.00%
Other costs	25,842	4.41%	-	0.00%
Total cost of sales	267,500	45.60%	175,572	35.28%
GROSS PROFIT	319,079	54.40%	322,113	64.72%
OPERATING EXPENSES				
Amortization	4,473	0.76%	4,473	0.90%
Auto expense	4,049	0.69%	2,998	0.60%
Bad debts	1,395	0.24%	1,553	0.31%
Bank service charges	1,949	0.33%	729	0.15%
Bond processing fees	3,099	0.53%	5,460	1.10%
Computer support	13,940	2.38%	7,995	1.61%
Depreciation	122,266	20.84%	106,500	21.40%
Dues and subscriptions	8,182	1.39%	8,493	1.71%
Insurance, taxes and bonds	60,266	10.27%	42,183	8.48%
Materials and supplies	47,812	8.15%	41,216	8.28%
Miscellaneous	2,972	0.51%	1,495	0.30%
Office supplies and postage	11,708	2.00%	11,772	2.37%
Payroll taxes	2,947	0.50%	6,864	1.38%
Professional fees	96,180	16.40%	30,927	6.21%
Repairs and maintenance	45,390	7.74%	17,588	3.53%
Salaries	81,823	13.95%	81,092	16.29%
Utilities	2,915	0.50%	1,086	0.22%
Total operating expenses	511,366	87.18%	372,424	63.49%
OPERATING LOSS	(192,287)	-32.78%	(50,311)	-8.58%
NON-OPERATING REVENUES (EXPENSES)				
Sales tax revenue	873,665	148.94%	1,045,607	178.26%
State tribal assistance grant	384,845	65.61%	-	0.00%
Interest income	222,276	37.89%	357,752	60.99%
Interest expense	(175,377)	-29.90%	(247,218)	-42.15%
Total non-operating revenues	1,305,409	222.55%	1,156,141	197.10%
EXCESS OF REVENUES OVER EXPENSES	1,113,122	189.77%	1,105,830	188.52%
NET ASSETS, JANUARY 1	5,614,985		4,509,155	
NET ASSETS, DECEMBER 31	\$ 6,728,107		\$ 5,614,985	

See accompanying notes to financial statements

TONTITOWN WATER & SEWER COMMISSION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006

	2007	2006
OPERATING ACTIVITIES:		
Cash received from customers	\$ 582,365	\$ 552,450
Cash paid to suppliers and employees	(687,198)	(540,089)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(104,833)	12,361
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to water system	(65,785)	(902,007)
Additions to sewer system	(3,943,798)	(1,080,100)
Additions to equipment	(85,414)	(111,087)
Principal paid on revenue bonds	(147,838)	(140,590)
Sales tax revenue	873,665	1,045,607
Interest expense	(175,377)	(247,218)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,544,547)	(1,435,395)
INVESTING ACTIVITIES:		
CD maturities	4,235	100,597
Interest earned on cash deposits	269,905	357,752
Investment in NACA	(354,845)	-
Sale of investments	-	85,000
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(80,705)	543,349
NET DECREASE IN CASH AND RESTRICTED CASH	(3,730,085)	(879,685)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	7,659,192	8,538,877
CASH AND RESTRICTED CASH, END OF YEAR	\$ 3,929,107	\$ 7,659,192
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (Loss) Income	(192,287)	\$ (50,311)
Adjustments to reconcile net income to cash:		
Provision for bad debts	\$ 1,395	
Amortization	4,472	4,473
Depreciation	122,267	106,500
Changes in assets and liabilities:		
Accounts receivable	(10,229)	(3,144)
Sales tax receivable	5,515	55,709
Other assets	500	2,200
Inventory	13,418	(8,340)
Customer deposits	284	7,646
Accounts payable and accrued expenses	(50,168)	(102,372)
NET CASH FROM OPERATING ACTIVITIES	\$ (104,833)	\$ 12,361
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 259,327	\$ 265,558
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:		
Sewer system additions included in accounts payable	\$ 541,540	\$ 590,823
Matching State Tribal Assistance Grant and interest	\$ 337,216	\$ -

See accompanying notes to financial statements.

TONTITOWN WATER & SEWER COMMISSION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

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 2006 financial statements to conform to the classifications used in 2007.

2. CASH AND CERTIFICATES OF DEPOSIT

At December 31, 2007, the carrying amount and bank balance of the Commission's bank accounts and certificates of deposit were approximately \$3,929,000. Of the bank balances, \$200,000 was covered by federal depository insurance and \$3,729,000 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, 2007.

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

	<u>2007</u>	<u>2006</u>
Petty cash	\$ 650	\$ 187
Operations and maintenance fund	232,219	385,905
Depreciation fund cash	54,172	38,302
Meter deposits	32,612	27,646
Capital improvements fund cash	61,314	8,559
Construction fund	1,176,505	4,915,809
Debt service fund	194,452	194,452
Sales and use tax fund	121,185	91,764
Water and sewer fund cash	<u>2,055,998</u>	<u>1,996,568</u>
	<u>\$ 3,929,107</u>	<u>\$ 7,659,192</u>

3. INVESTMENTS

The Commission 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. This project is in the development stage. The Commission contributed \$345,845 to NACA in 2007 in order to obtain matching funds of \$433,700 from a State Tribal Assistance Grant. A total of \$310,647 has been received on this grant at December 31, 2007. The advance and related matching grant are recorded as a liability to the Commission on the books of NACA and are due to be repaid to the Commission in June 2010. In the interim period, NACA has agreed to accrue interest at the prime rate plus 1% (9.25% at December 31, 2007) on the \$345,845 advance.

4. FIXED ASSETS

	<u>01/01/2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2007</u>
Equipment	\$ 117,980	\$ 85,414	\$ -	\$ 203,394
Sewer system	1,993,835	3,943,798	-	5,937,633
Water system	4,043,713	65,785	-	4,109,498
Accumulated depreciation	<u>(721,291)</u>	<u>(122,267)</u>	-	<u>(843,558)</u>
Net fixed assets	<u>\$5,434,237</u>	<u>\$3,972,730</u>	<u>\$ -</u>	<u>\$9,406,967</u>

Depreciation expense for equipment and water system was \$122,267 for the year ended December 31, 2007. The sewer system is under construction and depreciation will begin upon completion. Capitalized interest accounted for \$87,699 of the additions to sewer system.

5. WATER REVENUE BONDS PAYABLE

Water revenue bonds payable consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</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.	\$ 244,141	\$ 251,979
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>5,725,000</u>	<u>5,865,00</u>
	5,969,141	6,116,979
Less current maturities	<u>(153,283)</u>	<u>(144,456)</u>
	<u>\$ 5,815,858</u>	<u>\$ 5,972,523</u>

Debt service requirements at December 31, 2007 are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	153,283	255,988
2009	158,672	251,012
2010	164,079	245,683
2011	169,506	240,017
2012 to 2016	939,687	1,102,385
2017 to 2021	1,148,798	901,001
2022 to 2026	1,415,116	637,203
2027 to 2031	1,650,000	302,490
2032	<u>170,000</u>	<u>16,293</u>
Total	<u>\$5,969,141</u>	<u>\$3,952,072</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.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL
AUDITING STANDARDS**

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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 GOVERNMENTAL
AUDITING STANDARDS**

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, 2007 and 2006 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 June 14, 2008. 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 **Tontitown Water and Sewer Commission's** 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 **Tontitown Water and Sewer Commission's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **Tontitown Water and Sewer Commission's** internal control over financial reporting.

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 control deficiency is a control deficiency, or combination control deficiencies, that adversely affects the **Tontitown Water and Sewer Commission'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 **Tontitown Water and Sewer Commission's** financial statements that is more than inconsequential will not be prevented or detected by the **Tontitown Water and Sewer Commission's** internal control.

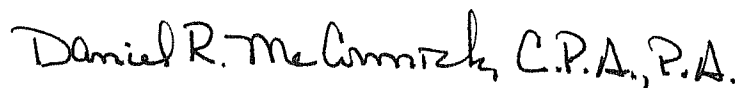
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the **Tontitown Water and Sewer Commission's** internal control.

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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

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.
Fayetteville, Arkansas
July 14, 2008