

BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

March 28, 2018

City of Tontitown Water and Sewer Department
P.O. Box 305
201 E. Henri de Tonti Blvd.
Tontitown, AR 72770

MANAGEMENT REPORT

In planning and performing our audit of the financial statements of the Water and Sewer Department of the City of Tontitown ("Department") for the year ended December 31, 2017, we considered the Department's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. (We previously reported on the Department's internal control in our report dated March 28, 2018). This letter does not affect our report dated March 28, 2018, on the financial statements of the Water and Sewer Department of the City of Tontitown.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the Department's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations:

Improve Financial Records

We noted two accounts that were not being properly maintained in the general ledger, which were UMB Bank Account #141831.6 and UMB Bank Account #141831.3. Although these accounts are maintained by a third party trustee, they should be recorded and reconciled each month. Along with those two accounts, we noted that UMB Account #141831.1, UMB Account #141831.2 and UMB Account #141831.4 were being internally reconciled each month, but the transactions were not being properly coded to the correct accounts. Such a system does not permit the preparation of accurate and reliable financial statements. The importance of a good accounting system cannot be overemphasized. Without adequate financial records, management is basing its decision on incomplete and/or inaccurate information during the year, and excessive time is spent at year end in preparing and auditing the financial statements.

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General Comments

We wish to thank the accounting staff for their support and assistance during our audit.

Please mail a copy of the audit report to the following organizations:

UMB Bank
Attn: Dee Anna Schmidt, CPA
204 North Robinson
Oklahoma City, OK 73102

Arkansas Natural Resources Commission
101 East Capital Avenue, Suite 350
Little Rock, AR 72201

This report is intended solely for the information and use of the City Council, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Berry & Associates

Berry & Associates, P.A.
Little Rock, Arkansas
March 28, 2018

**CITY OF TONTITOWN
WATER AND SEWER DEPARTMENT
Tontitown, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended
December 31, 2017 and 2016
and
INDEPENDENT AUDITOR'S REPORT**

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
Tontitown, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

**Honorable Paul Colvin, Jr., Mayor
and Members of the City Council
City of Tontitown Water and Sewer Department
Tontitown, Arkansas**

Report on the Financial Statements

We have audited the accompanying financial statements of the Water and Sewer Department of the City of Tontitown, Arkansas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

Because of the inadequacy of accounting records for the year ended December 31, 2016, we were unable to obtain sufficient appropriate audit evidence regarding the amounts at which transfers are recorded in the accompanying Statement of Revenues, Expenses, and Changes in Net Position at December 31, 2016 (stated at \$216,785).

Qualified Opinion on the 2016 Financial Statements

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the City of Tontitown Water and Sewer Department as of December 31, 2016, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Honorable Paul Colvin, Jr., Mayor
and Members of the City Council
City of Tontitown
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Opinion on the 2017 Financial Statements

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the City of Tontitown Water and Sewer Department as of December 31, 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018 on our consideration of the Water and Sewer Department of the City of Tontitown, Arkansas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water and Sewer Department of the City of Tontitown, Arkansas's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Department and do not purport to, and do not, present fairly the financial position of the City of Tontitown, Arkansas, as of December 31, 2017 and 2016, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Berry & Associates

BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
March 28, 2018

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2017 and 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,794,209	\$ 2,164,018
Accounts receivable	127,375	104,481
Sales tax receivable	92,299	83,934
Inventory	73,884	69,104
Prepaid expenses	3,079	5,593
Total current assets	<u>3,090,846</u>	<u>2,427,130</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	281,159	253,409
Investments	276,333	275,686
Total Restricted assets	<u>557,492</u>	<u>529,095</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>11,635,574</u>	<u>11,890,866</u>
Other assets		
Bond fees, net of accumulated amortization	<u>55,181</u>	<u>58,860</u>
TOTAL ASSETS	<u>\$ 15,339,093</u>	<u>\$ 14,905,951</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 93,627	\$ 68,876
Retainage payable	-	22,585
Accrued liabilities	11,383	2,282
Current portion of long-term debt	228,000	222,400
Accrued interest payable	16,238	16,791
Total current liabilities	<u>349,248</u>	<u>332,934</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	65,463	57,903
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	<u>3,844,624</u>	<u>4,072,576</u>
TOTAL LIABILITIES	<u>4,259,335</u>	<u>4,463,413</u>
NET POSITION		
Net investment in capital assets	7,618,134	7,654,752
Temporarily restricted	171,466	171,466
Unrestricted	<u>3,290,158</u>	<u>2,616,320</u>
Total net position	<u>11,079,758</u>	<u>10,442,538</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,339,093</u>	<u>\$ 14,905,951</u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water revenue	\$ 790,552	\$ 726,857
Sewer revenue	511,306	211,383
Water & sewer tapping/connection fees	102,742	144,232
Solid waste revenue	151,377	149,626
Other income	68,969	68,285
Total operating revenues	<u>1,624,946</u>	<u>1,300,383</u>
OPERATING EXPENSES		
Water purchases	363,204	308,081
Sewer service purchases	722,649	648,154
Solid waste reimbursement	140,714	127,301
Salaries & payroll taxes	153,827	143,964
Employee benefits	47,297	19,585
Auto expenses	21,498	10,811
Insurance	10,005	5,629
Computer support	13,816	13,594
Professional fees	52,751	27,394
Repairs and maintenance	120,459	99,840
Utilities and telephone	26,255	23,448
Dues and subscriptions	5,828	12,360
Materials and supplies	161,286	157,566
Office expense	3,630	17,362
Bank fees	3,025	5,447
Uniforms	1,124	1,403
Training	1,040	3,978
Miscellaneous expenses	23,156	27,160
Depreciation and amortization	458,134	459,801
Total operating expenses	<u>2,329,698</u>	<u>2,112,878</u>
OPERATING LOSS	<u>\$ (704,752)</u>	<u>\$ (812,495)</u>

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION, Continued
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
NONOPERATING REVENUE (EXPENSES)		
City sales tax	\$ 799,879	\$ 716,032
Other income	351,500	1,520
Interest income	8,102	6,401
Loss on capital asset disposal	(1,143)	(1,610)
Interest expense	<u>(137,267)</u>	<u>(124,691)</u>
Net nonoperating income	<u>1,021,071</u>	<u>597,652</u>
NET INCOME (LOSS) BEFORE TRANSFERS	316,319	(214,843)
TRANSFERS IN FROM CITY FOR SALES TAX	319,951	286,413
OTHER TRANSFERS IN	950	216,785
CHANGE IN NET POSITION	<u>637,220</u>	<u>288,355</u>
NET POSITION - BEGINNING OF YEAR ORIGINALLY STATED	10,442,538	10,064,209
PRIOR PERIOD ADJUSTMENT	-	89,974
NET POSITION - BEGINNING OF YEAR RESTATED	<u>10,442,538</u>	<u>10,154,183</u>
NET POSITION - END OF YEAR	<u>\$ 11,079,758</u>	<u>\$ 10,442,538</u>

The accompanying notes to the financial statements are an integral part of these statements

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,602,052	\$ 1,299,094
Cash payments to suppliers	(1,695,788)	(1,549,755)
Cash payments to employees	(166,436)	(143,964)
Net cash used operating activities	<u>(260,172)</u>	<u>(394,625)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(205,342)	(96,310)
Cancellation of construction projects	9,000	-
Costs paid on construction in progress	(13,608)	(619,465)
Proceeds from sale of capital assets	8,500	-
Principal payments on long-term debt	(222,352)	(216,802)
Interest payments on long-term debt	(137,820)	(142,471)
Net cash used by capital and related financing activities	<u>(561,622)</u>	<u>(1,075,048)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Sales tax proceeds	799,879	716,032
Other income	351,500	-
Transfers from City for sales tax	319,951	286,413
Other transfers from City	950	216,785
Net cash provided by non-capital financing activities	<u>1,472,280</u>	<u>1,219,230</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net activity of restricted cash	(28,397)	1,283
Interest received	8,102	6,401
Net cash provided (used) by investing activities	<u>(20,295)</u>	<u>7,684</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	630,191	(242,759)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,164,018</u>	<u>2,406,777</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 2,794,209</u></u>	<u><u>\$ 2,164,018</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS, Continued
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (704,752)	\$ (812,495)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	458,134	459,801
Provision for loss on disposal of capital assets	1,143	1,610
(Increase) Decrease in:		
Accounts receivable	(22,894)	(1,289)
Sales tax receivable	(8,365)	(6,532)
Inventory	(4,780)	(56,144)
Prepaid expenses	2,514	(743)
Increase (Decrease) in:		
Accounts payable	24,751	3,659
Retainage payable	(22,585)	22,585
Accrued liabilities	9,102	(7,868)
Due to general fund	-	(4,171)
Customer deposits	7,560	6,962
	<u>444,580</u>	<u>417,870</u>
Net cash used by operating activities	<u>\$ (260,172)</u>	<u>\$ (394,625)</u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The City of Tontitown, Arkansas, Water and Sewer Department is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The fund is used to record the revenues and expenses from the operation of the water and sewer system.

Basis of Presentation and Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, restricted for debt service; and unrestricted components.

Estimates

Management of the Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Department considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

Allowance for Bad Debts

The Department has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however as of December 31, 2017 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2017 was \$0.

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Department. The budget of the Department is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at the fiscal year-end.

Reclassification

Certain amounts reported in 2016 have been reclassified to conform to the presentation at December 31, 2017.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Asset	Years
Land improvements	15-39
Water & Sewer System	40
Buildings	40
Equipment	5-15
Vehicles	5

Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refundings of debt are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Equity Classification

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets-This component of net position consists of 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 improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds.

Temporarily Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted."

Investments

Marketable securities are classified as "available for sale". Securities classified as "available for sale" are carried in the financial statements at fair value. Realized gains and losses, determined using the first-in, first-out (FIFO) method, are included in the earnings; unrealized holding gains and losses are reported in other comprehensive income.

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Capitalized Interest

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of capital assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS:

All funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation (“FDIC”) or collateralized by securities held by the banks in the Department’s name. The deposited funds were adequately insured at December 31, 2017.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance 12/31/16	Additions	Retirements and transfers	Balance 12/31/17
Land & Improvements	\$ 387,298	\$ -	\$ -	\$ 387,298
Sewer System	8,956,702	736,044	-	9,692,746
Water System	5,217,808	-	-	5,217,808
Buildings	249,216	-	-	249,216
Equipment	668,055	43,500	(10,000)	701,555
Vehicles	58,411	-	-	58,411
Construction in Progress	619,465	174,692	(745,429)	48,728
	<u>16,156,955</u>	<u>\$ 954,236</u>	<u>\$ (755,429)</u>	<u>16,355,762</u>
Less Accumulated Depreciation	<u>(4,266,089)</u>			<u>(4,720,188)</u>
Total Net Capital Assets	<u>\$ 11,890,866</u>			<u>\$ 11,635,574</u>

	Balance 12/31/15	Additions	Retirements and transfers	Balance 12/31/16
Land & Improvements	\$ 336,293	\$ 51,005	\$ -	\$ 387,298
Sewer System	8,956,702	-	-	8,956,702
Water System	5,217,808	-	-	5,217,808
Buildings	249,216	-	-	249,216
Equipment	660,938	18,624	(11,507)	668,055
Vehicles	31,730	26,681	-	58,411
Construction in Progress	-	619,465	-	619,465
	<u>15,452,687</u>	<u>\$ 715,775</u>	<u>\$ (11,507)</u>	<u>16,156,955</u>
Less Accumulated Depreciation	<u>(3,819,861)</u>			<u>(4,266,089)</u>
Total Net Capital Assets	<u>\$ 11,632,826</u>			<u>\$ 11,890,866</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 – LONG-TERM DEBT:

Long-term debt consists of the following:

	2017	2016
Water System Revenue Bond, serviced by Regions Bank and payable to Arkansas Natural Resources Commission, due in semi-annual installments of \$9,670, including interest at 4.6%, beginning April 2002 through June 2027. The bond is secured by revenues of the Department. (1)	\$ 142,624	\$ 154,976
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds - Series 2013. Due annually beginning October 2013 through October 2032. Interest rates range from 2.0% to 4.25%. Interest is payable semi annually. The bond is secured by 75% of the net collections of the 1% sales and use tax levied within the City of Tontitown. (2)	3,930,000	4,140,000
	4,072,624	4,294,976
Less Current Portion	(228,000)	(222,400)
Long-Term Debt, Net	\$ 3,844,624	\$ 4,072,576

(1) The bond agreement with Arkansas Natural Resources Commission contains a provision which requires the Department to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, and (2) leave a balance equal to the debt service requirements to which the system revenues are pledged. For the year ended December 31, 2017, the Department did satisfy this requirement of the rate covenant.

(2) The revenue bonds have no restrictive covenants.

The annual maturities of long-term debt at December 31, 2017, are as follows:

	Principal	Interest	Total
2018	\$ 228,000	\$ 132,972	\$ 360,972
2019	233,500	128,173	361,673
2020	239,200	123,072	362,272
2021	244,800	117,410	362,210
2022	250,500	111,305	361,805
2023-2027	1,341,624	440,975	1,782,599
2028-2032	1,535,000	169,840	1,704,840
	\$ 4,072,624	\$ 1,223,747	\$ 5,296,371

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 4 – LONG-TERM DEBT (continued):

Long-term liability activity for the years ended December 31, 2017 and 2016 is as follows:

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/17</u>	<u>Due Within</u> <u>One Year</u>
Long Term Debt					
Sales & Use Tax Bonds	\$ 4,140,000	\$ -	\$ (210,000)	\$ 3,930,000	\$ 215,000
Water Revenue Bonds	154,976	-	(12,352)	142,624	13,000
	<u>\$ 4,294,976</u>	<u>\$ -</u>	<u>\$ (222,352)</u>	<u>\$ 4,072,624</u>	<u>\$ 228,000</u>

	<u>Balance</u> <u>12/31/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due Within</u> <u>One Year</u>
Long Term Debt					
Sales & Use Tax Bonds	\$ 4,345,000	\$ -	\$ (205,000)	\$ 4,140,000	\$ 210,000
Water Revenue Bonds	166,778	-	(11,802)	154,976	12,400
	<u>\$ 4,511,778</u>	<u>\$ -</u>	<u>\$ (216,802)</u>	<u>\$ 4,294,976</u>	<u>\$ 222,400</u>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$4,072,624 in revenue bonds. Proceeds from the bonds were used for building of the Department's water and sewer system. Principal and interest on the bonds are payable through 2032, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2017 were \$222,352 and \$137,820, respectively. Principal and interest paid in the year ended December 31, 2016 were \$216,802 and \$142,471, respectively.

NOTE 5 – SUBSEQUENT EVENTS:

Management has evaluated all the activities of the Department through March 28, 2018 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements as of December 31, 2017.

NOTE 6 – RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted for specific use and cash deposits for meters by customers.

The following is a list of the restricted cash at December 31:

	<u>2017</u>	<u>2016</u>
Customer Meter Deposits	\$ 74,410	\$ 57,614
Construction Funds	206,749	195,795
	<u>\$ 281,159</u>	<u>\$ 253,409</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 6 – RESTRICTED ASSETS (continued):

The long-term debt covenants require minimum reserves for debt service reserves (see Note 2). These funds are held investment accounts as seen in Note 8.

	2017		2016
2002 Series Revenue Bond Fund	\$ 1,634	\$	1,613
2013 Series Sales Tax Principal Account	53,948		52,548
2013 Series Sales Tax Bond Debt Service Reserve	203,501		204,275
2013 Series Sales Tax General Account	17,250		17,250
	<u>\$ 276,333</u>	\$	<u>275,686</u>

NOTE 7 – RISK MANAGEMENT:

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Department carries property, vehicle insurance and workers compensation insurance.

There has been no significant reduction in the Department's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

NOTE 8 – INVESTMENTS:

FASB Accounting Standards Codification (ASC) 820-10 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted observable quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the FASB fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All of the entity's investments are determined to be Level 1.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016**

NOTE 8 – INVESTMENTS (continued):

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value at December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds	\$ 1,633	\$ -	\$ -	\$ 1,633
Money Market	274,699	-	-	274,699
Total Assets at Fair Value	<u>\$ 276,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,332</u>

The Department's investments in securities are stated at fair market value and consist of the following:

	<u>Costs</u>	<u>Fair Value</u>
Bond Funds	\$ 1,634	\$ 1,634
Money Market	274,699	274,699
	<u>\$ 276,333</u>	<u>\$ 276,333</u>

NOTE 9 – COMMITMENTS:

On April 24, 2007, the Department entered into a service contract with Northwest Arkansas Conservation Authority (NACA). The agreement as amended provides for the treatment of waste water for the Department by NACA. The agreement also provides that the commission will share in the cost of operating the NACA facilities primarily based upon the Department's pro rata share of treated waste water, that the Department will charge its customers at rates adequate to cover the cost of NACA's services (to the extent allowed by law), and that the Department will not be required to compensate NACA in amounts in excess of waste water revenues. Treatment costs from NACA for the years ended December 31, 2017 and 2016 were \$722,649 and \$648,154, respectively. The agreement has a term expiring the later of April 2047 or such time as all NACA debt has been retired.

NOTE 10 – EMPLOYEE BENEFITS:

The District participates in a section 457 deferred compensation plan administered by Principal Life Insurance Company. All employees are eligible to participate. The Department contributes 5% of the eligible compensation and matches up to 5% of the employee's contribution. For the year ended December 31, 2017, contributions by the Department were \$12,610.

BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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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*

Independent Auditor's Report

**Honorable Paul Colvin, Jr., Mayor
and Members of the City Council
City of Tontitown Water and Sewer Department
Tontitown, Arkansas**

We have audited, 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, the financial statements of the Water and Sewer Department of the City of Tontitown, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Water and Sewer Department of the City of Tontitown, Arkansas's financial statements and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected in a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2017-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

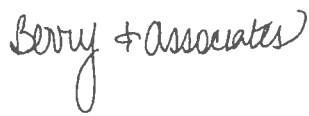
Honorable Paul Colvin, Jr., Mayor
and Members of the City Council
City of Tontitown
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Response to Findings

The Water and Sewer Department of the City of Tontitown, Arkansas' responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.
Little Rock, Arkansas
March 28, 2018

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2017

2017-001 Internal Control – Complete set of accounting records

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2017, the activity for two of the Department’s UMB Bank Accounts were absent from the general ledger. This finding was also noted in 2016.

Cause: The Department did not properly record transactions and maintain accounting records.

Effect or Potential Effect: General ledger accounts were not properly accounted for in the Department’s internal financial statements. With these accounts missing, it does not permit the preparation of accurate and reliable financial statements.

Recommendation: We recommend that management of the Department properly record all transactions and appropriately maintain all accounting records in a timely manner.

Responsible Official’s Response: The Department concurs with the recommendation.