

# BERRY & ASSOCIATES, P.A.

*Certified Public Accountants*

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

April 25, 2019

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, 2018, 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 April 25, 2019). This letter does not affect our report dated April 25, 2019, 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 the UMB Bank accounts and the Farmers and Merchants Bank accounts were not being properly maintained in the general ledger. Although these accounts are maintained by a third party trustee, they should be recorded and reconciled each month. The UMB Bank accounts were being internally reconciled each month, but the transactions were not being properly coded to the correct accounts. The Farmers and Merchants Bank accounts were not being reconciled and the activity was 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.

### **Meter Deposits**

We noticed the meter deposit bank account has a much larger balance than the meter deposit liability. We recommend a review of the bank account be performed to ensure all deposits relate to meter deposits and that all meter deposits for closed accounts that have been applied to final bills be transferred to the utility bank account. If the results of the review process prove to be balances for closed accounts paid in full, the amounts should be reported to the Arkansas Auditor of State's Unclaimed Property Division, according to Arkansas Code Annotated §18-28-201.

**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

Farmers & Merchants Bank  
P.O. Box 1010  
Stuttgart, AR 72160

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  
April 25, 2019

**CITY OF TONTITOWN  
WATER AND SEWER DEPARTMENT  
Tontitown, Arkansas  
FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION  
For the Years Ended  
December 31, 2018 and 2017  
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, 2018 and 2017**

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# **BERRY & ASSOCIATES, P.A.**

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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, 2018 and 2017, 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 policies 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.

#### **Opinion on the 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, 2018 and 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.

Honorable Paul Colvin, Jr., Mayor  
and Members of the City Council  
City of Tontitown  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2019 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, 2018 and 2017, 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  
April 25, 2019

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT  
STATEMENTS OF NET POSITION  
December 31, 2018 and 2017**

**ASSETS**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,632,575	\$ 2,794,209
Accounts receivable	139,039	127,375
Sales tax receivable	155,080	92,299
Inventory	62,434	73,884
Prepaid expenses	7,996	3,079
Total current assets	<u>2,997,124</u>	<u>3,090,846</u>
<b>NON-CURRENT ASSETS</b>		
Restricted assets		
Cash and cash equivalents	5,841,062	8,081,159
Investments	279,353	276,333
Total Restricted assets	<u>6,120,415</u>	<u>8,357,492</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>14,884,023</u>	<u>11,635,574</u>
Other assets		
Bond fees, net of accumulated amortization	<u>51,502</u>	<u>55,181</u>
<b>TOTAL ASSETS</b>	<u>\$ 24,053,064</u>	<u>\$ 23,139,093</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 78,782	\$ 93,627
Accrued liabilities	12,447	11,383
Short-term debt	85,002	-
Current portion of long-term debt	313,500	228,000
Accrued interest payable	64,969	16,238
Total current liabilities	<u>554,700</u>	<u>349,248</u>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>		
Meter deposits	74,318	65,463
Accounts payable	433,470	-
Retainage payable	130,651	-
Total current liabilities payable from restricted assets	<u>638,439</u>	<u>65,463</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt, net of current portion	<u>11,331,197</u>	<u>11,644,624</u>
<b>TOTAL LIABILITIES</b>	<u>12,524,336</u>	<u>12,059,335</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,641,708	7,618,134
Temporarily restricted	377,823	171,466
Unrestricted	8,509,197	3,290,158
Total net position	<u>11,528,728</u>	<u>11,079,758</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 24,053,064</u>	<u>\$ 23,139,093</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, 2018 and 2017**

	2018	2017
<b>OPERATING REVENUES</b>		
Water revenue	\$ 789,949	\$ 790,552
Sewer revenue	535,872	511,306
Water & sewer tapping/connection fees	168,856	102,742
Solid waste revenue	152,428	151,377
Other income	69,113	68,969
	1,716,218	1,624,946
<b>OPERATING EXPENSES</b>		
Water purchases	483,660	363,204
Sewer service purchases	738,145	722,649
Solid waste reimbursement	158,376	140,714
Salaries & payroll taxes	177,893	153,827
Employee benefits	57,504	47,297
Auto expenses	21,598	21,498
Insurance	4,361	10,005
Computer support	17,246	13,816
Professional fees	34,022	52,751
Repairs and maintenance	96,390	120,459
Utilities and telephone	24,241	26,255
Dues and subscriptions	9,807	5,828
Materials and supplies	449,158	161,286
Office expense	448	3,630
Bank fees	2,436	3,025
Uniforms	1,648	1,124
Training	1,592	1,040
Miscellaneous expenses	23,386	23,156
Depreciation and amortization	460,242	458,134
	2,762,153	2,329,698
<b>OPERATING LOSS</b>	\$ (1,045,935)	\$ (704,752)

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, 2018 and 2017**

	2018	2017
<b>NONOPERATING REVENUE (EXPENSES)</b>		
City sales tax	\$ 1,601,045	\$ 799,879
Other income	3,500	351,500
Bond fees	(240,219)	-
Interest income	116,425	8,102
Loss on capital asset disposal	-	(1,143)
Interest expense	(362,106)	(137,267)
Net nonoperating income	1,118,645	1,021,071
<b>NET INCOME BEFORE TRANSFERS</b>	72,710	316,319
<b>TRANSFERS IN FROM CITY FOR SALES TAX</b>	376,260	319,951
<b>OTHER TRANSFERS IN</b>	-	950
<b>CHANGE IN NET POSITION</b>	448,970	637,220
<b>NET POSITION - BEGINNING OF YEAR</b>	11,079,758	10,442,538
<b>NET POSITION - END OF YEAR</b>	\$ 11,528,728	\$ 11,079,758

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 1,704,554	\$ 1,602,052
Cash payments to suppliers	(1,621,072)	(1,695,788)
Cash payments to employees	(177,893)	(166,436)
Net cash used operating activities	<u>(94,411)</u>	<u>(260,172)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchases of capital assets	(441,128)	(205,342)
Cancellation of construction projects	-	9,000
Costs paid on construction in progress	(3,263,883)	(13,608)
Proceeds from sale of capital assets	-	8,500
Proceeds from short-term debt	85,002	-
Principal payments on long-term debt	(227,927)	(222,352)
Proceeds from long-term debt	-	7,800,000
Bond processing fees paid on long-term debt	(240,219)	-
Interest payments on long-term debt	(313,375)	(137,820)
Net cash provided (used) by capital and related financing activities	<u>(4,401,530)</u>	<u>7,238,378</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Sales tax proceeds	1,601,045	799,879
Other income	3,500	351,500
Transfers from City for sales tax	376,260	319,951
Other transfers from City	-	950
Net cash provided by non-capital financing activities	<u>1,980,805</u>	<u>1,472,280</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net activity of restricted cash	2,237,077	(7,828,397)
Interest received	116,425	8,102
Net cash used by investing activities	<u>2,353,502</u>	<u>(7,820,295)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(161,634)	630,191
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>2,794,209</u>	<u>2,164,018</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,632,575</u>	<u>\$ 2,794,209</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (1,045,935)	\$ (704,752)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	460,242	458,134
Provision for loss on disposal of capital assets	-	1,143
(Increase) Decrease in:		
Accounts receivable	(11,664)	(22,894)
Sales tax receivable	(62,781)	(8,365)
Inventory	11,450	(4,780)
Prepaid expenses	(4,917)	2,514
Increase (Decrease) in:		
Accounts payable	(14,845)	24,751
Retainage payable	-	(22,585)
Accrued liabilities	1,063	9,102
Payable from restricted assets	564,121	-
Customer deposits	8,855	7,560
	<u>951,524</u>	<u>444,580</u>
Net cash used by operating activities	<u>\$ (94,411)</u>	<u>\$ (260,172)</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, 2018 and 2017**

**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, 2018 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2018 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 2017 have been reclassified to conform to the presentation at December 31, 2018. The 2017 Arkansas Sales & Use Tax Refunding Bonds – Series 2017 was funded in the latter part of the year ended December 31, 2017. Cash and cash equivalents and long-term debt include the \$7,800,000 transaction and no have no effect on net position as originally reported.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2018 and 2017**

**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, 2018 and 2017**

**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, 2018.

**NOTE 3 – CAPITAL ASSETS:**

Capital asset activity for the years ended December 31, 2018 and 2017 was as follows:

	Balance 12/31/17	Additions	Retirements and transfers	Balance 12/31/18
Land & Improvements	\$ 387,298	\$ -	\$ -	\$ 387,298
Sewer System	9,692,746	112,601	-	9,805,347
Water System	5,217,808	-	-	5,217,808
Buildings	249,216	258,725	-	507,941
Equipment	701,555	10,732	-	712,287
Vehicles	58,411	59,068	-	117,479
Construction in Progress	48,728	3,263,883	-	3,312,611
	<u>16,355,762</u>	<u>\$ 3,705,009</u>	<u>\$ -</u>	<u>20,060,771</u>
Less Accumulated Depreciation	(4,720,188)			(5,176,748)
Total Net Capital Assets	<u>\$ 11,635,574</u>			<u>\$ 14,884,023</u>

	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	(4,266,089)			(4,720,188)
Total Net Capital Assets	<u>\$ 11,890,866</u>			<u>\$ 11,635,574</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018 and 2017**

**NOTE 4 – LONG-TERM DEBT:**

Long-term debt consists of the following:

	<u>2018</u>	<u>2017</u>
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)	\$ 129,697	\$ 142,624
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)	3,715,000	3,930,000
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds - Series 2017. Due semi-annually beginning February 2019 through February 2048. Interest rates range from 1.75% to 3.63%. 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. (3)	<u>7,800,000</u>	<u>7,800,000</u>
	11,644,697	11,872,624
Less Current Portion	<u>(313,500)</u>	<u>(228,000)</u>
Long-Term Debt, Net	<u>\$ 11,331,197</u>	<u>\$ 11,644,624</u>

- (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, 2018, the Department did satisfy this requirement of the rate covenant.
- (2) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve fund in the amount of \$171,466 for the life of the bond.
- (3) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve fund in the amount of \$206,356 for the life of the bond.

The annual maturities of long-term debt at December 31, 2018, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 313,500	\$ 362,685	\$ 676,185
2020	414,200	355,354	769,554
2021	424,800	346,585	771,385
2022	435,500	337,286	772,786
2023	441,200	327,239	768,439
2024-2028	2,365,497	1,460,353	3,825,850
2029-2033	2,395,000	996,883	3,391,883
2034-2038	1,355,000	667,241	2,022,241
2039-2043	1,615,000	406,603	2,021,603
2044-2048	1,885,000	138,791	2,023,791
	<u>\$ 11,644,697</u>	<u>\$ 5,399,020</u>	<u>\$ 17,043,717</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018 and 2017**

**NOTE 4 – LONG-TERM DEBT (continued):**

Long-term liability activity for the years ended December 31, 2018 and 2017 is as follows:

	Balance 12/31/17	Additions	Retirements	Balance 12/31/18	Due Within One Year
Long Term Debt					
Sales & Use Tax Bonds	\$ 11,730,000	\$ -	\$ (215,000)	\$ 11,515,000	\$ 300,000
Water Revenue Bonds	142,624	-	(12,927)	129,697	13,500
	<u>\$ 11,872,624</u>	<u>\$ -</u>	<u>\$ (227,927)</u>	<u>\$ 11,644,697</u>	<u>\$ 313,500</u>
	Balance 12/31/16	Additions	Retirements	Balance 12/31/17	Due Within One Year
Long Term Debt					
Sales & Use Tax Bonds	\$ 4,140,000	\$ 7,800,000	\$ (210,000)	\$ 11,730,000	\$ 215,000
Water Revenue Bonds	154,976	-	(12,352)	142,624	13,000
	<u>\$ 4,294,976</u>	<u>\$ 7,800,000</u>	<u>\$ (222,352)</u>	<u>\$ 11,872,624</u>	<u>\$ 228,000</u>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$11,644,697 in sales & use tax bonds and 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 2048, from the water customer net revenues, as well as a percentage of sales tax proceeds. Principal and interest paid in the year ended December 31, 2018 were \$227,927 and \$313,375, respectively. Principal and interest paid in the year ended December 31, 2017 were \$222,352 and \$137,820, respectively.

**NOTE 5 – SUBSEQUENT EVENTS:**

Management has evaluated all the activities of the Department through April 25, 2019 (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, 2018.

**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:

	2018	2017
Debt Service Reserves	\$ 209,271	\$ -
Bond Fund	487,034	-
Customer Meter Deposits	95,493	74,410
Construction Funds	5,049,264	8,006,749
	<u>\$ 5,841,062</u>	<u>\$ 8,081,159</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018 and 2017**

**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.

	2018	2017
2002 Series Revenue Bond Fund	\$ 2,211	\$ 1,634
2013 Series Sales Tax Principal Account	55,926	53,948
2013 Series Sales Tax Bond Debt Service Reserve	203,966	203,501
2013 Series Sales Tax General Account	17,250	17,250
	\$ 279,353	\$ 276,333

**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, 2018 and 2017**

**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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds	\$ 2,211	\$ -	\$ -	\$ 2,211
Money Market	277,142	-	-	277,142
Total Assets at Fair Value	<u>\$ 279,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,353</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	\$ 2,211	\$ 2,211
Money Market	277,142	277,142
	<u>\$ 279,353</u>	<u>\$ 279,353</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, 2018 and 2017 were \$738,145 and \$722,649, respectively. The agreement has a term expiring the later of April 2047 or such time as all NACA debt has been retired.

On November 29, 2018, the Department was awarded \$1,980,000 in revenue bonds from Bank of Fayetteville for improvements to the Water & Sewer System. As of December 31, 2018, only \$85,002 had been received. The project is expected to be complete by November 2019, at which point, the remaining funds will be received and refinanced through Arkansas Rural Development.

The Department started a construction project to extend the water line from Benton Washington Regional Public Water Authority, as well as create a bypass sewer line. During the year December 31, 2018, the Department entered into a contract with Garver, LLC for design services for the project for the amount of \$756,625, and total costs of \$554,721 were incurred on this contract as of December 31, 2018. The Department entered into a contract with Rosetta Construction for the construction of the water line extension project for the amount of \$7,995,374, and total costs of \$2,613,029 were incurred on this contract as of December 31, 2018.

**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, 2018, contributions by the Department were \$14,740.

# BERRY & ASSOCIATES, P.A.

## Certified Public Accountants

American Institute of CPAs

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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, 2018, 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 April 25, 2019.

#### 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 2018-001, 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  
April 25, 2019

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2018**

**2018-001 Internal Control – Complete set of accounting records**

Criteria: Maintaining a complete set of accounting records.

Condition: At December 31, 2018, the activity for the Department's Farmers & Merchants accounts were not properly recorded or reconciled.

Cause: The Department did not properly record and reconcile 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 not recorded correctly, it does not permit the preparation of accurate and reliable financial statements.

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

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