

**TONTITOWN WATER AND SEWER DEPARTMENT**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**



TONTITOWN WATER AND SEWER DEPARTMENT

DECEMBER 31, 2014

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## **Independent Auditor's Report**

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To the Honorable Mayor and City Council  
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 (the Department), as of and for the year ended December 31, 2014, and the related notes to the financial statements, as listed in the table of contents.

### ***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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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 Department'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 Department'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 account 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water and Sewer Department of the City of Tontitown, Arkansas as of December 31, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements presents only the Water and Sewer Department enterprise fund and do not purport to, and do not present fairly the financial position of the City of Tontitown, Arkansas, as of December 31, 2014, and the changes in its financial position or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Report on Prior Year Financial Statements***

The financial statements of the City of Tontitown, Arkansas Water and Sewer Department as of December 31, 2013 were audited by another auditor whose report dated April 4, 2014, expressed an unmodified opinion on those statements.

### ***Other Matters***

#### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2017, on our consideration of the Department'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 or on 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 Department's internal control over financial reporting and compliance.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**June 12, 2017**

## ***FINANCIAL STATEMENTS***

# TONTITOWN WATER AND SEWER DEPARTMENT

## STATEMENT OF NET POSITION

AS OF DECEMBER 31,	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,454,631	\$ 2,176,334
Restricted checking and savings accounts	208,735	188,598
Restricted investments	275,849	280,829
Accounts receivable, net of allowance for doubtful accounts	168,943	103,748
Sales tax receivable	55,928	188,382
Due to general fund	-	7,492
Inventory	22,929	38,052
Prepaid expenses	2,031	-
<b>Total Current Assets</b>	<b>3,189,046</b>	<b>2,983,435</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets</b>		
Land and improvements	336,293	336,293
Sewer system	8,917,512	8,916,062
Water system	5,096,727	5,025,948
Buildings	231,066	231,066
Equipment	588,932	574,655
Vehicles	31,730	31,730
<b>Total Capital Assets</b>	<b>15,202,260</b>	<b>15,115,754</b>
Less: accumulated depreciation	3,395,557	2,969,955
<b>Net Capital Assets</b>	<b>11,806,703</b>	<b>12,145,799</b>
<b>Total Assets</b>	<b>14,995,749</b>	<b>15,129,234</b>
<b>Deferred Outflows of Resources</b>		
Deferred loss on refunding, net of amortization	66,217	70,160
<b>Total Deferred Outflows of Resources</b>	<b>66,217</b>	<b>70,160</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	90,201	174,745
Due to general fund	8,035	-
Accrued interest	35,620	35,893
Meter deposits payable	43,343	37,280
Current portion of long-term debt	211,278	185,776
<b>Total Current Liabilities</b>	<b>388,477</b>	<b>433,694</b>
<b>Noncurrent liabilities</b>		
Bonds payable, net of unamortized bond premium/discount	4,607,044	4,849,586
<b>Total Noncurrent Liabilities</b>	<b>4,607,044</b>	<b>4,849,586</b>
<b>Total Liabilities</b>	<b>4,995,521</b>	<b>5,283,280</b>
<b>Net Position</b>		
Net investment in capital assets	7,054,598	7,110,437
Restricted	408,056	469,427
Unrestricted	2,603,791	2,336,250
<b>Total Net Position</b>	<b>\$ 10,066,445</b>	<b>\$ 9,916,114</b>

See accompanying notes to financial statements.

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

<b>FOR THE YEARS ENDED DECEMBER 31,</b>	<b>2014</b>	<b>2013</b>
<b>Operating Revenue</b>		
Water revenue	\$ 670,407	\$ 660,144
Sewer revenue	261,747	234,822
Water and sewer access tapping fees	51,715	65,795
Solid waste revenue	158,933	154,223
Other income	12,858	12,266
Less: sales tax	(80,221)	(62,031)
<b>Total Operating Revenue</b>	<b>1,075,439</b>	<b>1,065,219</b>
<b>Operating Expenses</b>		
Water purchases	252,308	256,115
Sewer service purchases	654,284	658,685
Solid waste reimbursement	130,019	127,574
Salaries and payroll taxes	63,202	121,995
Employee benefits	6,273	18,774
Auto expenses	11,008	4,453
Insurance	1,795	7,868
Computer support	4,709	3,908
Professional fees	18,101	14,712
Repairs and maintenance	50,236	75,179
Utilities and telephone	21,543	21,070
Dues and subscriptions	15,494	12,607
Materials and supplies	17,296	5,268
Office expense	8,322	5,516
Bank fees	2,554	2,442
Uniforms	1,999	1,487
Contract labor	-	12,640
Miscellaneous expense	5,848	3,578
Depreciation	425,602	427,354
<b>Total Operating Expenses</b>	<b>1,690,593</b>	<b>1,781,225</b>
<b>Net Loss From Operations</b>	<b>(615,154)</b>	<b>(716,006)</b>
<b>Nonoperating Revenue (Expenses)</b>		
City sales tax	533,464	668,800
Bond issuance costs	-	(111,194)
Interest income	7,237	6,388
Interest expense, inclusive of amortization of bond premium and amortization of deferred amount on advance refunding	(148,903)	(169,275)
Transfers from City for sales tax	262,225	268,055
Other transfers from the City	111,462	-
<b>Total Net Nonoperating Revenue</b>	<b>765,485</b>	<b>662,774</b>
<b>Change in Net Position</b>	<b>150,331</b>	<b>(53,232)</b>
Net Position at Beginning of Year, as previously stated	9,916,114	9,979,528
Prior Period Adjustment	-	(10,182)
Net Assets at Beginning of Year, as restated	9,916,114	9,969,346
<b>Net Position at End of Year</b>	<b>\$ 10,066,445</b>	<b>\$ 9,916,114</b>

See accompanying notes to financial statements.

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **STATEMENT OF CASH FLOWS**

<b>FOR THE YEARS ENDED DECEMBER 31,</b>	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operations</b>		
Cash receipts from customers	\$ 1,016,307	\$ 1,047,975
Cash payments to suppliers for goods and services	(1,273,241)	(1,170,495)
Cash payments to employees for services	(63,202)	(121,995)
<b>Net Cash Used By Operating Activities</b>	<b>(320,136)</b>	<b>(244,515)</b>
<b>Cash Flows From Non-capital And Related Financing Activities</b>		
Sales tax proceeds	665,918	580,907
Transfers from City for sales tax	262,225	268,055
Other transfers from City	111,462	-
Net borrowings (repayment) of advances from primary government	15,527	(7,552)
<b>Net Cash Provided By Non-capital and Related Financing Activities</b>	<b>1,055,132</b>	<b>841,410</b>
<b>Cash Flows From Capital And Related Financing Activities</b>		
Cash expended for property, plant and equipment	(86,506)	(44,152)
Net proceeds from issuance of bonds	-	5,010,851
Bond issuance costs paid	-	(114,105)
Repayment of debt	(210,776)	(5,120,297)
Interest paid on debt	(151,497)	(164,027)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<b>(448,779)</b>	<b>(431,730)</b>
<b>Cash Flows From Investing Activities</b>		
Net activity of restricted cash	(15,157)	(105,966)
Interest Income	7,237	6,388
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>(7,920)</b>	<b>(99,578)</b>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	<b>278,297</b>	<b>65,587</b>
<b>Cash and Cash Equivalents At Beginning of Year</b>	<b>2,176,334</b>	<b>2,110,747</b>
<b>Cash and Cash Equivalents At End of Year</b>	<b>\$ 2,454,631</b>	<b>\$ 2,176,334</b>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>		
Operating loss	\$ (615,154)	\$ (716,006)
Adjustments:		
Depreciation	425,602	427,354
(Increase) decrease in:		
Accounts receivable	(65,195)	(24,596)
Inventory	15,123	(4,655)
Prepaid expenses	(2,031)	-
Increase (decrease) in:		
Trade accounts payable	(84,544)	66,036
Customer deposits	6,063	7,352
<b>Net Cash Used By Operating Activities</b>	<b>\$ (320,136)</b>	<b>\$ (244,515)</b>

See accompanying notes to financial statements.



# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **Nature of Business**

The purpose of the Tontitown Water and Sewer Department (the Department) is to provide and maintain a water and sewer system for the residents in and around Tontitown, Arkansas. The Mayor and the City Council governs the Water and Sewer Department.

### **1. Summary of Significant Accounting Policies**

#### **a. Financial Reporting**

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Department. The Department accounts for its operations as an enterprise fund.

The financial statements of the Department have been prepared in accordance with generally accepted accounting principals (GAAP) in the United States. GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Department implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in *Pre-November 30, 1989, FASB and AICPA Pronouncements*. This pronouncement incorporates the FASB, APB, and ARB pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The implementation of this pronouncement had no significant effect on the financial statements.

The Department is considered to be a component unit of the City of Tontitown, Arkansas. These financial statements reflect only the Water and Sewer Department Enterprise Fund of the City Tontitown, Arkansas and, accordingly, do not reflect other activities, funds and account groups of the City.

#### **b. Income Taxes**

The Department is exempt from income taxes as a governmental agency.

#### **c. Cash Equivalents**

For purposes of the statement of cash flows, the Department considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, excluding restricted cash

#### **d. Accounts Receivable**

The Department uses the valuation method as required by generally accepted accounting principles to value accounts receivable. The allowance for doubtful accounts represents management's estimate of uncollectible accounts receivable.

# TONTITOWN WATER AND SEWER DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. Summary of Significant Accounting Policies (continued)

#### e. Investments

The Department's investments are recorded at fair value.

Accounting principles generally accepted in the United States establish a fair value hierarchy for determining and measurement of fair value. The hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy is generally as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3: Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed techniques that result in management's best estimate of fair value.

#### f. Inventories

Inventory consists of supplies and repair parts for the operation and maintenance of plant and equipment. The amount recorded in these financial statements is estimated at cost using the first-in, first-out method or market.

#### g. Capital Assets

Fixed assets are stated at cost. Depreciation is computed using the straight-line methods over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Land improvements	15 -39 years
Sewer system	40 years
Water system	40 years
Buildings	39 years
Equipment	5 - 15 years
Vehicles	5 years

It is the Department's policy to capitalize all asset purchases.

# TONTITOWN WATER AND SEWER DEPARTMENT

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

### 1. Summary of Significant Accounting Policies (continued)

#### h. Unamortized Bond Premium and Discount/Deferred Gain or Loss

Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premiums or discounts. Bond issuance costs are reported as an expense of the current period. Refunding of debt may result in deferred gains or losses and are reported as deferred inflows and outflows of resources. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense using the straight-line method.

#### i. Compensated Absences

Due to the inability for compensated absences to be reasonably estimated, no provision has been made for such.

#### j. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### k. Prior Period Adjustments / Accounting Pronouncements / Reclassifications

In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The effect of GASB 65 to the Department was to make a prior period adjustment to the 2013 financial statements to fully amortize the bond issue costs. A prior period adjustment was also made in the 2013 financial statements to correct some account balances. The net impact of these adjustments was an increase to 2013 ending net position of \$24,659. In addition, certain 2013 amounts have been reclassified in order to conform with the 2014 financial statement presentation

### 2. Cash Deposits

The Department maintains its operating bank accounts in one local financial institution. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. In addition, some deposits are collateralized by the bank through the pledging of securities. At December 31, 2014 all of the Department's deposits were insured and/or collateralized. The Department does not believe that there is any significant risk associated with the concentrations of credit nor has the Department experienced any losses in such accounts.

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **3. Restricted Cash and Investments**

Restricted checking and savings accounts consist of the following:

<b>As of December 31,</b>	<b>2014</b>	<b>2013</b>
Restricted checking and savings:		
Depreciation Fund	\$ 167,828	\$ 150,712
Meter Deposits checking account	40,907	37,886
<b>Total restricted checking and savings</b>	<b>\$ 208,735</b>	<b>\$ 188,598</b>

Restricted investments are comprised of the following:

2002 Series Revenue Bond Fund	\$ 1,612	\$ -
2013 Series Sales Tax Principal Account	5	-
2013 Series Sales Tax Bond Debt Service Reserve	171,499	171,482
2013 Series Sales Tax General Account	102,733	109,347
<b>Total restricted investments</b>	<b>\$ 275,849</b>	<b>\$ 280,829</b>

### **4. Investments**

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

<b>As of December 31, 2014</b>	<b>Cost</b>	<b>Market Value</b>
<u>Bond Funds</u>		
Federated Inst Prime Oblig. Fund #700	\$ 102,738	\$ 102,738
Fidelity Institutional Treas Only CL III	1,612	1,612
<u>Debt Service Reserve Fund</u>		
Federated Inst Prime Oblig. Fund #700	171,499	171,499
<b>Total</b>	<b>\$ 275,849</b>	<b>\$ 275,849</b>

<b>As of December 31, 2013</b>	<b>Cost</b>	<b>Market Value</b>
<u>Bond Funds</u>		
Federated Inst Prime Oblig. Fund #396	\$ 109,347	\$ 109,347
<u>Debt Service Reserve Fund</u>		
Federated Inst Prime Oblig. Fund #396	171,482	171,482
<b>Total</b>	<b>\$ 280,829</b>	<b>\$ 280,829</b>

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **4. Investments (continued)**

#### Fair Value Disclosures

The following table represents the Department's investments that are measured at fair value on a recurring basis:

<b>December 31, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Federated Inst Prime Oblig.				
Fund #700	\$ 274,237	\$ -	\$ -	\$ 274,237
Fidelity Institutional Treas Only CL III				
CL III	1,612			1,612
<b>Total</b>	<b>\$ 275,849</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 275,849</b>

  

<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Federated Inst Prime Oblig. Fund				
#396	\$ 280,829	\$ -	\$ -	\$ 280,829
<b>Total</b>	<b>\$ 280,829</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 280,829</b>

### **5. Capital Assets**

Activity of capital assets consists of the following:

<b>As Of</b>	<b>January 1, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2014</b>
Land and improvements	\$ 336,293	\$ -	\$ -	\$ 336,293
Sewer system	8,916,062	1,450	-	8,917,512
Water system	5,025,948	70,779	-	5,096,727
Buildings	231,066	-	-	231,066
Equipment	574,655	14,277	-	588,932
Vehicles	31,730	-	-	31,730
<b>Total</b>	<b>\$ 15,115,754</b>	<b>\$ 86,506</b>	<b>\$ -</b>	<b>\$ 15,202,260</b>

  

<b>As Of</b>	<b>January 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>December 31, 2013</b>
Land and improvements	\$ 336,293	\$ -	\$ -	\$ 336,293
Sewer system	8,907,937	8,125	-	8,916,062
Water system	4,950,878	75,070	-	5,025,948
Buildings	231,066	-	-	231,066
Equipment	564,865	9,790	-	574,655
Vehicles	31,730	-	-	31,730
Construction in progress	48,833	-	48,833	-
<b>Total</b>	<b>\$ 15,071,602</b>	<b>\$ 92,985</b>	<b>\$ 48,833</b>	<b>\$ 15,115,754</b>

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **6. Long-Term Debt**

<b>As of December 31,</b>	<b>2014</b>	<b>2013</b>
Water System Revenue Bond, serviced by Regions Bank and payable to the Arkansas Soil and Water Conservation Commission. Issued in the aggregate amount of \$270,500 in February 2002 a fixed interest rate of 4.6%. Semi-annual payments of \$9,670 are due June 1 and December 1 including interest with final maturity due June 2027. The bond is secured by revenues of the Department.	\$ 178,056	\$ 188,832
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds - Series 2013. Issued in the aggregate amount of \$4,905,000 in January 2013 with interest rates ranging from 2.0% to 4.25%, generally due annually, on October 1. Interest is payable semi-annually with principal maturity paid October 2013 through October 2032. The bond is secured by 75% of the net collections of the 1% sales and use tax levied within the city of Tontitown.	4,545,000	4,745,000
Total debt	4,723,056	4,933,832
Less current maturity	211,278	210,776
Long-term debt	4,511,778	\$ 4,723,056
Plus unamortized bond premium	95,266	101,530
Long-term debt, net	\$ 4,607,044	\$ 4,824,586

Debt is to be repaid as follows:

<b>December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 211,278	\$ 146,995	\$ 358,273
2016	216,802	142,470	359,272
2017	222,352	137,821	360,173
2018	227,927	133,045	360,972
2019	233,528	122,145	355,673
2020-2024	2,362,686	361,857	2,724,543
2025-2029	293,483	173,861	467,344
2030-2032	955,000	66,757	1,021,757
Total	\$ 4,723,056	\$ 1,284,951	\$ 6,008,007

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **6. Long-Term Debt (continued)**

Activity of the long-term debt consists of the following:

<b>As Of</b>	<b>January 1, 2014</b>	<b>Debt Additions</b>	<b>Debt Retirements</b>	<b>December 31, 2014</b>
Water System Revenue Bond	\$ 188,832	\$ -	\$ 10,776	\$ 178,056
2013 Sales Tax Refunding Bond	4,745,000	-	200,000	4,545,000
<b>Total</b>	<b>\$ 4,933,832</b>	<b>\$ -</b>	<b>\$ 210,776</b>	<b>\$ 4,723,056</b>

  

<b>As Of</b>	<b>January 1, 2013</b>	<b>Debt Additions</b>	<b>Debt Retirements</b>	<b>December 31, 2013</b>
Water System Revenue Bond	\$ 199,129	\$ -	\$ 10,297	\$ 188,832
2005 Sales Tax Revenue Bond	4,950,000	-	4,950,000	-
2013 Sales Tax Refunding Bond	-	4,905,000	160,000	4,745,000
<b>Total</b>	<b>\$ 5,149,129</b>	<b>\$ 4,905,000</b>	<b>\$ 5,120,297</b>	<b>\$ 4,933,832</b>

### **7. Bond Premium / Deferred Loss on Refunding**

The bond premium of \$105,852 incurred in connection with the 2013 sales and use tax refunding bonds is being amortized over the life of the bond which is 20 years. Amortization of the premium totaled \$6,264 and is netted with interest expense in the statement of activities. The unamortized balance of \$99,266 at December 31, 2014, is included with long-term debt on the statement of net position.

For bond refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. The accounting loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented on the Statement of Net Assets as a deferred outflow. The \$73,575 deferred loss on bond refunding incurred with the defeasance of the 2005 sales tax revenue bond is being amortized over 20 years. Amortization of the loss totaled \$3,943 and was included with interest expense in the statement of activities.

### **8. Rate Covenant**

The loan agreement with Arkansas Soil and Water Conservation Commission contains a provision (the Rate Covenant) which requires the Department to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, (2) fund a depreciation reserve fund equal to 3% of gross revenues from the system, and (3) leave a balance equal to the debt service requirements to which the system revenues are pledged. For the year ended December 31, 2014, the Department did satisfy this requirement of the rate covenant.

# **TONTITOWN WATER AND SEWER DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2014**

### **8. Rate Covenant (continued)**

The loan agreement with Arkansas Soil and Water Conservation Commission also requires the establishment of a depreciation fund. Monthly payments of 3% of the prior months gross revenues into the depreciation fund are required by the indenture. Moneys in the fund are to be used solely for repair and replacement costs made necessary by the depreciation of properties of the Department. For the year ended December 31, 2014, the Department did not satisfy this requirement.

### **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, 2014 and 2013 were \$654,284 and \$658,865, respectively. The agreement has a term expiring the later of April 2047 or such time as all NACA debt has been retired.

### **10. Concentration of Credit Risk**

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

### **11. 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.

### **12. Subsequent Events**

In March 2015, the Arkansas Legislative Audit completed an investigative report on their review of selected transactions of City of Tontitown, Arkansas general fund and water and sewer department. The report discovered that a case of fraud relating to misappropriation of funds had occurred from the period of January 1, 2013 through February 12, 2015 in the amount of \$58,350. The responsible party was indicted and the City filed an insurance claim and recovered the funds.



***ADDITIONAL REQUIRED REPORT***



**Independent Auditor's 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***

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To the Honorable Mayor and City Council  
Tontitown Water and Sewer Department  
Tontitown, Arkansas

We have audited, in accordance with the 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 Tontitown, Arkansas (the Department), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated June 12, 2017, which was modified to reflect the omission of the management's discussion and analysis.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Water and Sewer Department of Tontitown, Arkansas' 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 Water and Sewer Department of Tontitown, Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the Water and Sewer Department of Tontitown, Arkansas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 on 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet importance enough to merit attention by those charged with governance. We consider the deficiencies describe in the accompanying schedule of findings and responses as item 2014-006 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Water and Sewer Department of Tontitown, Arkansas' financial statements are free from 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*.

### **Water and Sewer Department of Tontitown, Arkansas' Response to Findings**

The Water and Sewer Department of Tontitown, Arkansas' responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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 Department'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.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**June 12, 2017**

# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF FINDINGS AND RESPONSES

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FOR THE YEAR ENDED DECEMBER 31, 2014

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### Findings - Financial Statement Audit - Current Year

#### **2014-001 Material Weakness: Internal controls over financial statement preparation**

*Condition:*

The Department does not have sufficient internal controls over the preparation and review of the Generally Accepted Accounting Principles (GAAP) based financial statements and footnote disclosures. Management may fail to prevent or detect financial statement and footnote disclosure errors.

*Criteria:*

The Department is required to maintain systems of controls and have trained personnel with the knowledge and expertise concerning Governmental Accounting Standards Board (GASB) pronouncements to prepare and/or review GAAP based financial statements and footnote disclosures.

*Cause and Effect:*

The Department does not maintain systems of controls over the preparation of financial statements and footnote disclosures in accordance with GAAP. Management may fail to prevent or detect financial statement and footnote disclosure errors.

*Recommendation:*

The Department should implement systems of internal controls, to the extent possible, regarding the preparation and/or review of GAAP based financial statements and footnote disclosures by trained personnel with knowledge of GASB pronouncements which ensures the statements and disclosures are free from errors.

*Responsible Official's Comments and Plan of Action:*

Management will monitor the systems of internal controls relating to the preparation of the GAAP based financial statements and footnote disclosures and implement the corrective procedures to the extent possible.

#### **2014-002 Material Weakness: Non-recognition of sales tax and water/sewer revenues.**

*Condition:*

The accounts receivable ledger was not reconciled with the general ledger. The Water revenue and sales tax receipts were not recorded or recorded incorrectly in the general ledger. Monitoring and review of the monthly financial statements by governance and management was not effective in prevention or detection of the issue.

See independent auditor's report.

# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

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**FOR THE YEAR ENDED DECEMBER 31, 2014**

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### Findings - Financial Statement Audit - Current Year (continued)

#### **2014-002 Material Weakness: Non-recognition of sales tax and water/sewer revenues. (continued)**

*Criteria:*

Those charged with governance and management are responsible for reviewing account reconciliations to prevent revenue recognition errors and misstatements.

*Cause and Effect:*

Accounting policies do not appear to address reconciliation of subsidiary ledger to general ledger on a monthly basis. It appears management has been inconsistent in the review of balances at month-end. Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented, detected, or corrected in a timely manner.

*Recommendation:*

Governance and management should employ review techniques on a regular basis and conduct a review of monthly financial statements for potential misstatements. Management should develop a month-end checklist for employees to implement in order to ensure accounts are reconciled to the general ledger

*Responsible Official's Comments and Plan of Action:*

The City Bookkeeper will be in charge of reconciling the daily financial journals with bank statements, and records to ensure accuracy.

#### **2014-003 Material Weakness: Review process incomplete**

*Condition:*

Reimbursements to the City for payroll were not recorded in the accounting records. The Department did not record the reimbursement to the City for June and December's payroll.

*Criteria:*

The Department is responsible for the proper recording of transactions in a timely manner. It is management's responsibility to oversee that the recording process is according to generally accepted accounting principles in the United States of America.

*Cause and Effect:*

The review process was incomplete in this case. Unrecorded payroll reimbursements were not prevented or detected in a timely manner. This could cause the financial statements to have a material misstatement.

See independent auditor's report.

# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

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**FOR THE YEAR ENDED DECEMBER 31, 2014**

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### Findings - Financial Statement Audit - Current Year (continued)

#### **2014-003 Material Weakness: Review process incomplete (continued)**

*Recommendation:*

All steps in the review and approval process should be followed, including matching the reimbursement to the general ledger and to the check issued.

*Responsible Official's Comments and Plan of Action:*

Management will ensure that the review of reimbursed expenditures includes comparison of the reimbursement amount to the general ledger, and check amount.

#### **2014-004 Material Weakness: Lack of segregation of duties regarding the custody of cash**

*Condition:*

One part-time employee and one full time employee, who was the Recorder/Treasurer for the City, were responsible for record keeping. The Recorder/Treasurer was primarily responsible for depositing customer payments made with cash. There were no internal controls in place to mitigate or monitor the lack of segregation of duties, and mitigate the risk of error or fraud.

*Criteria:*

A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize, record, and maintain custody of assets. It is management's responsibility to develop policies, procedures, and oversight to mitigate the risk of misstatements due to error or fraud.

*Cause and Effect:*

The Department did not maintain a proper segregation of duties related to its cash deposit transactions. The lack of proper segregation of duties and oversight allowed the Recorder/Treasurer to misappropriate assets in the amount of \$56,963, which was discovered by Arkansas Legislative Audit.

*Recommendation:*

If segregation of duties is not feasible, management and those charged with governance must develop, maintain and oversee, internal controls to mitigate the risk of misstatements caused by error or fraud.

*Responsible Official's Comments and Plan of Action:*

Management will segregate the reconciliation personnel from the individual making deposits. Every monetary transaction will have a receipt, which will be overseen by the Public Works Director.

See independent auditor's report.

# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF FINDINGS AND RESPONSES

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**FOR THE YEAR ENDED DECEMBER 31, 2014**

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### Findings - Financial Statement Audit - Current Year (continued)

#### **2014-005 Material Weakness: Security of computer information is inadequate.**

*Condition:*

An excel file located on the City computer system contained user IDs and passwords for all applications and systems in use; therefore, the security of the computer information was inadequate.

*Criteria:*

Security of financial information is necessary to prevent unauthorized users from altering records and untrained personnel, potentially causing a loss of information either purposely or by accident. A secure environment will also prevent the loss of customer's personal information.

*Cause and Effect:*

An insecure computing environment can cause records to be altered, untrained personnel to access information, and unauthorized manipulation of records that can cause material misstatements due to fraud and error.

*Recommendation:*

Each employee authorized to work in the system should have their own user name and password that is required to be changed every 30- 90 days. Each employee should only be able to access areas relevant to the employees responsibilities. Access to each work station should be user ID and password protected.

*Responsible Official's Comments and Plan of Action:*

Management will work with the City IT department to have password storage reviewed. Additionally, we will work in conjunction with Legislative Audit IT personnel to implement the necessary security changes to our system. We will work with our software vendor to research security measures that can be added to the system.

#### **2014-006 Significant Deficiency: Interfund transactions not in balance**

*Condition:*

The Department does not have sufficient internal controls over the processing of interfund transactions. Interfund balances did not eliminate and interfund transfers were incorrectly used to attempt to balance interfund journal entries. Numerous adjustments were required to balance the interfund activity.

See independent auditor's report.

# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF FINDINGS AND RESPONSES

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**FOR THE YEAR ENDED DECEMBER 31, 2014**

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### **Findings - Financial Statement Audit - Current Year (continued)**

#### **2014-006 Significant Deficiency: Interfund transactions not in balance (continued)**

*Criteria:*

The Department is required to maintain a system of internal controls over the preparation of interfund transactions to ensure the interfund activity balances out on a government wide basis.

*Cause and Effect:*

The Department did not maintain an adequate system of internal controls over the preparation of interfund transactions. Therefore interfund transactions were out of balance at the year-end and required numerous adjustments and research to balance these accounts.

*Recommendation:*

As part of the Department's internal control over the preparation of interfund transactions, the Department should implement an adequate monitoring and review of their interfund transactions on a monthly basis. Any reconciling items should be addressed and investigated each month before the monthly close of the Department's financial records. Adjusting journal entries should also be made as necessary to balance out the Department's interfund balances on a monthly basis.

*Responsible Official's Comments and Plan of Action:*

Management will monitor the balances of the interfund activity and designate individuals to effectively monitor and review the interfund entries and make necessary adjusting entries to balance out the interfund activity on a monthly basis.

See independent auditor's report.



# TONTITOWN WATER AND SEWER DEPARTMENT

## SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

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### FOR THE YEAR ENDED DECEMBER 31, 2014

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#### Findings - Financial Statement Audit - Prior Year

##### **2013-001 Non-recognition of water/sewer revenues**

*Condition:*

The accounts receivable ledger was not reconciled with the general ledger. The November 2013 billing was not recorded in the general ledger. Monitoring and review of monthly financial statements by governance and management was not effective in identifying the issue.

*Recommendation:*

Governance and management should employ review techniques on a regular basis and conduct a review of monthly financial statements for potential misstatements. Management should develop a month-end checklist for employees to implement in order to ensure accounts are reconciled to the general ledger

*Current Status:*

See finding 2014-002

##### **2013-002 Review Process Incomplete**

*Condition:*

An invoice was entered with an extra digit causing the expenditure to be overstated by a factor of ten. The expenditure approval process was followed and the required reviews were documented.

*Recommendation:*

All steps in the review and approval process should be followed, including matching the invoice amounts to the check.

*Current Status:*

See Finding 2014-003

See independent auditor's report.