

**CITY OF TONTITOWN
WATER AND SEWER DEPARTMENT
Tontitown, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended
December 31, 2019 and 2018
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, 2019 and 2018

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BERRY & ASSOCIATES, P.A.

Certified Public Accountants

American Institute of CPAs

Arkansas Society of CPAs

Texas Society of CPAs

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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**

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, 2019 and 2018, 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 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, 2019 and 2018, 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.

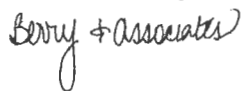
Honorable Paul Colvin, Jr., Mayor
and Members of the City Council
City of Tontitown
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 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, 2019 and 2018, 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, P.A.
Little Rock, Arkansas
April 30, 2020

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,282,595	\$ 2,632,575
Accounts receivable	181,394	139,039
Sales tax receivable	186,077	155,080
Inventory	64,603	62,434
Prepaid expenses	9,678	7,996
Total current assets	<u>3,724,347</u>	<u>2,997,124</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	1,800,138	5,841,062
Investments	281,069	279,353
Total Restricted assets	<u>2,081,207</u>	<u>6,120,415</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>21,878,585</u>	<u>14,884,023</u>
Other assets		
Bond fees, net of accumulated amortization	-	51,502
TOTAL ASSETS	<u><u>\$ 27,684,139</u></u>	<u><u>\$ 24,053,064</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 128,500	\$ 78,782
Accrued liabilities	12,012	12,447
Short-term debt	1,700,610	85,002
Current portion of long-term debt	447,500	313,500
Accrued interest payable	72,789	64,969
Total current liabilities	<u>2,361,411</u>	<u>554,700</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	87,476	74,318
Accounts payable	-	433,470
Retainage payable	464,083	130,651
Total current liabilities payable from restricted assets	<u>551,559</u>	<u>638,439</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	<u>11,683,669</u>	<u>11,331,197</u>
TOTAL LIABILITIES	<u>14,596,639</u>	<u>12,524,336</u>
NET POSITION		
Net investment in capital assets	10,747,418	2,641,708
Temporarily restricted	551,156	377,823
Unrestricted	1,788,926	8,509,197
Total net position	<u>13,087,500</u>	<u>11,528,728</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 27,684,139</u></u>	<u><u>\$ 24,053,064</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 REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING REVENUES		
Water revenue	\$ 958,585	\$ 789,949
Sewer revenue	694,649	535,872
Water & sewer tapping/connection fees	396,313	168,856
Solid waste revenue	162,471	152,428
Other income	92,529	69,113
Total operating revenues	<u>2,304,547</u>	<u>1,716,218</u>
OPERATING EXPENSES		
Water purchases	523,660	483,660
Sewer service purchases	810,849	738,145
Solid waste reimbursement	177,376	158,376
Salaries & payroll taxes	213,258	177,893
Employee benefits	50,062	57,504
Auto expenses	16,205	21,598
Insurance	13,428	4,361
Computer support	341	17,246
Professional fees	25,520	34,022
Repairs and maintenance	152,424	96,390
Utilities and telephone	38,643	24,241
Dues and subscriptions	10,427	9,807
Materials and supplies	81,367	449,158
Office expense	2,905	448
Bank fees	2,473	2,436
Uniforms	2,955	1,648
Training	-	1,592
Miscellaneous expenses	32,943	23,386
Depreciation and amortization	471,586	460,242
Total operating expenses	<u>2,626,422</u>	<u>2,762,153</u>
OPERATING LOSS	<u>\$ (321,875)</u>	<u>\$ (1,045,935)</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, 2019 and 2018

	2019	2018
NONOPERATING REVENUE (EXPENSES)		
City sales tax	\$ 1,812,147	\$ 1,601,045
Other income	-	3,500
Bond fees	(9,380)	(240,219)
Interest income	120,295	116,425
Gain on capital asset disposal	8,564	-
Interest expense	(413,720)	(362,106)
Net nonoperating income	<u>1,517,906</u>	<u>1,118,645</u>
NET INCOME BEFORE TRANSFERS	1,196,031	72,710
TRANSFERS IN FROM CITY FOR SALES TAX	<u>414,244</u>	<u>376,260</u>
CHANGE IN NET POSITION	1,610,275	448,970
NET POSITION - BEGINNING OF YEAR, ORIGINALLY STATED	<u>11,528,728</u>	<u>11,079,758</u>
PRIOR PERIOD ADJUSTMENT	<u>(51,503)</u>	<u>-</u>
NET POSITION - BEGINNING OF YEAR, RESTATED	<u>11,477,225</u>	<u>11,079,758</u>
NET POSITION - END OF YEAR	<u><u>\$ 13,087,500</u></u>	<u><u>\$ 11,528,728</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
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,262,192	\$ 1,704,554
Cash payments to suppliers	(2,022,589)	(1,621,072)
Cash payments to employees	(213,258)	(177,893)
Net cash provided (used) by operating activities	<u>26,345</u>	<u>(94,411)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(2,100,963)	(441,128)
Costs paid on construction in progress	(5,377,655)	(3,263,883)
Proceeds from sale of capital assets	29,600	-
Proceeds from short-term debt	1,615,608	85,002
Interest payments on short-term debt	(46,119)	-
Principal payments on long-term debt	(513,528)	(227,927)
Proceeds from long-term debt	1,000,000	-
Bond processing fees paid on long-term debt	(9,380)	(240,219)
Interest payments on long-term debt	(359,782)	(313,375)
Net cash used by capital and related financing activities	<u>(5,762,219)</u>	<u>(4,401,530)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Sales tax proceeds	1,812,147	1,601,045
Other income	-	3,500
Transfers from City for sales tax	414,244	376,260
Net cash provided by non-capital financing activities	<u>2,226,391</u>	<u>1,980,805</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net activity of restricted cash	4,039,208	2,237,077
Interest received	120,295	116,425
Net cash provided by investing activities	<u>4,159,503</u>	<u>2,353,502</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	650,020	(161,634)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,632,575</u>	<u>2,794,209</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 3,282,595</u></u>	<u><u>\$ 2,632,575</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (321,875)	\$ (1,045,935)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	471,586	460,242
Provision for gain on disposal of capital assets	(8,564)	-
(Increase) Decrease in:		
Accounts receivable	(42,355)	(11,664)
Sales tax receivable	(30,997)	(62,781)
Inventory	(2,169)	11,450
Prepaid expenses	(1,682)	(4,917)
Increase (Decrease) in:		
Accounts payable	49,718	(14,845)
Accrued liabilities	(437)	1,063
Payable from restricted assets	(100,038)	564,121
Customer deposits	13,158	8,855
	<u>348,220</u>	<u>951,524</u>
Net cash provided (used) by operating activities	\$ <u><u>26,345</u></u>	\$ <u><u>(94,411)</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash capital and related financing activities:		
Removal of bond fees due to GASB 65 changes	\$ <u><u>51,503</u></u>	\$ <u><u>-</u></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, 2019 and 2018**

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, 2019 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2019 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.

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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, 2019 and 2018

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, 2019.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the years ended December 31, 2019 and 2018 was as follows:

	Balance 12/31/18	Additions	Retirements and transfers	Balance 12/31/19
Land & Improvements	\$ 387,298	\$ -	\$ -	\$ 387,298
Sewer System	9,805,347	412,840	-	10,218,187
Water System	5,217,808	1,745,151	-	6,962,959
Buildings	507,941	-	-	507,941
Equipment	712,287	4,379	(59,493)	657,173
Vehicles	117,479	-	-	117,479
Construction in Progress	3,312,611	5,377,655	(52,842)	8,637,424
	<u>20,060,771</u>	<u>\$ 7,540,025</u>	<u>\$ (112,335)</u>	<u>27,488,461</u>
Less Accumulated Depreciation	(5,176,748)			(5,609,876)
Total Net Capital Assets	<u>\$ 14,884,023</u>			<u>\$ 21,878,585</u>

	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>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 – LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Arkansas Natural Resources Revenue Bonds, due in semi-annual installments of \$9,670, including interest at 4.6%, through June 2027. (1)	\$ 116,169	\$ 129,697
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds payable to UMB Bank, due in annual installments through October 2032. Interest rates range from 2.0% to 4.25%, due in semi-annual installments. (2)	3,495,000	3,715,000
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds payable to Farmers & Merchants, due in semi-annual installments through February 2048. Interest rates range from 1.75% to 3.63%, due in semi annual installments. (3)	7,520,000	7,800,000
Loan payable to Grand Savings Bank, due in semi-annual installments of \$33,300 through August 2023, including interest at 4.35%, with final balloon payment of \$866,667 to be made August 2024. (4)	<u>1,000,000</u>	<u>-</u>
	12,131,169	11,644,697
Less Current Portion	<u>(447,500)</u>	<u>(313,500)</u>
Long-Term Debt, Net	<u>\$ 11,683,669</u>	<u>\$ 11,331,197</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, 2019, 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.
- (4) The loan has restrictive covenants, including the requirement to begin accumulating a debt service reserve in annual installments of \$173,333, until the reserve reaches \$866,667.

The annual maturities of long-term debt at December 31, 2019, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 447,533	\$ 398,973	\$ 846,506
2021	458,133	388,635	846,768
2022	468,833	377,886	846,719
2023	474,533	366,389	840,922
2024	1,318,667	355,961	1,674,628
2025-2029	2,423,469	1,379,224	3,802,693
2030-2034	2,140,000	1,253,964	3,393,964
2035-2039	1,400,000	617,856	2,017,856
2040-2044	1,670,000	352,381	2,022,381
2045-2048	1,330,001	289,699	1,619,700
	<u>\$ 12,131,169</u>	<u>\$ 5,780,968</u>	<u>\$ 17,912,137</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 4 – LONG-TERM DEBT (continued):

Long-term liability activity for the years ended December 31, 2019 and 2018 is as follows:

	Balance 12/31/18	Additions	Retirements	Balance 12/31/19	Due Within One Year
Long Term Debt					
Sales & Use Tax Bonds	\$ 11,515,000	\$ -	\$ (500,000)	\$ 11,015,000	\$ 400,000
Water Revenue Bonds	129,697	-	(13,528)	116,169	14,200
Loans	-	1,000,000	-	1,000,000	33,300
	<u>\$ 11,644,697</u>	<u>\$ 1,000,000</u>	<u>\$ (513,528)</u>	<u>\$ 12,131,169</u>	<u>\$ 447,500</u>

	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>

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$12,131,169 in sales & use tax bonds, revenue bonds and loans. Proceeds from the loans/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, 2019 were \$513,528 and \$359,782, respectively. Principal and interest paid in the year ended December 31, 2018 were \$227,927 and \$313,375, respectively.

NOTE 5 – SUBSEQUENT EVENTS:

Management has evaluated all the activities of the Department through April 30, 2020 (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, 2019.

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:

	2019	2018
Debt Service Reserves	\$ 213,129	\$ 209,271
Bond Fund	741,344	487,034
Customer Meter Deposits	93,069	95,493
Construction Funds	752,596	5,049,264
	<u>\$ 1,800,138</u>	<u>\$ 5,841,062</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

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.

	2019		2018
2002 Series Revenue Bond Fund	\$ 2,312	\$	2,211
2013 Series Sales Tax Principal Account	57,628		55,926
2013 Series Sales Tax Bond Debt Service Reserve	203,879		203,966
2013 Series Sales Tax General Account	17,250		17,250
	<u>\$ 281,069</u>	\$	<u>279,353</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, 2019 and 2018

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds	\$ 2,312	\$ -	\$ -	\$ 2,312
Money Market	278,757	-	-	278,757
Total Assets at Fair Value	<u>\$ 281,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 281,069</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	\$ 2,312	\$ 2,312
Money Market	<u>278,757</u>	<u>278,757</u>
	<u>\$ 281,069</u>	<u>\$ 281,069</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, 2019 and 2018 were \$810,849 and \$738,145, 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, 2019, only \$1,700,610 had been received. The project is expected to be complete by November 2020, 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 \$693,502 were incurred on this contract as of December 31, 2019. 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 \$7,847,654 were incurred on this contract as of December 31, 2019.

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, 2019, contributions by the Department were \$12,567.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018**

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

The requirements of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, indicates that debt issuance costs including but not limited to insurance costs, financing costs, and other related costs, should be recognized as an expense in the period incurred. These accounting changes are to be applied retroactively by restating financial statements, if practical, for all periods presented. If restatement is not practical, the cumulative effect should be reported as a restatement of beginning net position.

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The Department has implemented these accounting changes and found restatement of prior periods not practical. The beginning net position has been restated by the total cumulative effect of \$51,503 for the year ended December 31, 2019.

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, 2019, 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 30, 2020.

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.

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

Berry & Associates, P.A.
Little Rock, Arkansas
April 30, 2020