

**CITY OF TONTITOWN
WATER AND SEWER DEPARTMENT
Tontitown, Arkansas
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
For the Years Ended
December 31, 2022 and 2021
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, 2022 and 2021

<u>Contents</u>	<u>Page</u>
Independent Auditor's Report	1-3
Statements of Net Position.....	4
Statements of Revenues, Expenses, and Changes in Net Position	5
Statements of Cash Flows.....	6-7
 Notes to Financial Statements	
Note 1 - Summary of Significant Accounting Policies	8-10
Note 2 - Deposits with Financial Institutions.....	10
Note 3 - Capital Assets.....	10-11
Note 4 - Long-Term Debt	11-13
Note 5 - Subsequent Events.....	13
Note 6 - Restricted Assets	13
Note 7 - Risk Management.....	14
Note 8 - Employee Benefits	14
Note 9 - Investments.....	14
Note 10 - Commitments	15
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	16-17
 Supplementary Information Required by USDA Rural Development	18



**Honorable Angela Russell, Mayor
and Members of the City Council
City of Tontitown Water and Sewer Department
Tontitown, Arkansas**

**Report on the Audit of the Financial Statements
Opinions**

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 years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Department's financial statements as listed in the table of contents.

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, 2022 and 2021, 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

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water & Sewer Department and do not purport to, and do not, present fairly the financial position of the City of Tontitown, Arkansas as of December 31, 2022 and 2021, the changes in its financial position, or, where applicable, its cash flow for the year 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.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Honorable Angela Russell, Mayor
and Members of the City Council
City of Tontitown Water & Sewer Department

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The Supplementary Information Required by the USDA Rural Development is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information Required by the USDA Rural Development is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Angela Russell, Mayor
and Members of the City Council
City of Tontitown Water & Sewer Department

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2023 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.

Berry & Associates

BERRY & ASSOCIATES, P.A.
Little Rock, Arkansas
April 25, 2023

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,563,525	\$ 4,840,501
Accounts receivable	315,119	204,166
Sales tax receivable	187,467	325,818
Inventory	71,789	47,901
Other current assets	-	5,881
Prepaid expenses	-	15,561
Total current assets	<u>6,137,900</u>	<u>5,439,828</u>
NON-CURRENT ASSETS		
Restricted assets		
Cash and cash equivalents	7,125,260	2,021,849
Investments	<u>1,886</u>	<u>292,029</u>
Total Restricted assets	<u>7,127,146</u>	<u>2,313,878</u>
Capital assets		
Capital assets, net of accumulated depreciation	<u>21,005,129</u>	<u>21,506,483</u>
Other assets		
Other assets	12,000	12,000
Debt service reserve held in trust by City	284,885	-
Materials on hand (Note 10)	<u>3,258,165</u>	<u>-</u>
Total Other assets	<u>3,555,050</u>	<u>12,000</u>
TOTAL ASSETS	<u>\$ 37,825,225</u>	<u>\$ 29,272,189</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 223,675	\$ 135,303
Accrued liabilities	17,651	2,805
Current portion of long-term debt	468,100	505,100
Accrued interest payable	<u>117,954</u>	<u>72,429</u>
Total current liabilities	<u>827,380</u>	<u>715,637</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Meter deposits	<u>127,309</u>	<u>114,562</u>
NON-CURRENT LIABILITIES		
Long-term debt, net of current portion	<u>18,099,860</u>	<u>11,249,607</u>
TOTAL LIABILITIES	<u>19,054,549</u>	<u>12,079,806</u>
NET POSITION		
Net investment in capital assets	5,695,336	9,751,777
Temporarily restricted	501,037	587,797
Unrestricted	<u>12,574,303</u>	<u>6,852,809</u>
Total net position	<u>18,770,676</u>	<u>17,192,383</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 37,825,225</u>	<u>\$ 29,272,189</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, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water revenue	\$ 1,355,505	\$ 1,173,530
Sewer revenue	1,373,236	1,072,959
Water & sewer tapping/connection fees	230,000	473,050
Solid waste revenue	271,737	236,422
Other income	150,482	148,580
Total operating revenues	3,380,960	3,104,541
OPERATING EXPENSES		
Water purchases	652,894	586,293
Sewer service purchases	1,160,916	988,200
Solid waste reimbursement	291,218	248,884
Salaries & payroll taxes	295,535	273,844
Employee benefits	54,858	54,393
Auto expenses	34,238	21,679
Insurance	43,868	18,497
Computer support	312	1,185
Professional fees	35,587	13,515
Repairs and maintenance	460,537	512,325
Utilities and telephone	67,438	71,118
Dues and subscriptions	16,079	14,641
Materials and supplies	194,208	122,437
Office expense	2,903	978
Bank fees	2,176	2,997
Uniforms	8,666	3,380
Miscellaneous expenses	32,369	25,571
Depreciation and amortization	719,775	705,509
Total operating expenses	4,073,577	3,665,446
OPERATING LOSS	(692,617)	(560,905)
NONOPERATING REVENUE (EXPENSES)		
Other income	3,051	-
Bond fees	(116,744)	(500)
Interest income	98,114	8,686
Interest expense	(496,782)	(389,328)
Net nonoperating expense	(512,361)	(381,142)
NET LOSS BEFORE TRANSFERS	(1,204,978)	(942,047)
TRANSFERS IN	1,766	13,456
TRANSFERS IN FROM CITY FOR SALES TAX	2,781,505	3,399,590
CHANGE IN NET POSITION	1,578,293	2,470,999
NET POSITION - BEGINNING OF YEAR	17,192,383	14,721,384
NET POSITION - END OF YEAR	\$ 18,770,676	\$ 17,192,383

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,270,007	\$ 3,107,669
Cash payments to suppliers	(2,806,397)	(2,715,412)
Cash payments to employees	(295,535)	(273,844)
Net cash provided by operating activities	<u>168,075</u>	<u>118,413</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of capital assets	(218,421)	(266,017)
Costs paid on construction in progress	-	(8,528)
Costs paid for materials on hand	(3,258,165)	-
Increase in reserves held in trust by City	(284,885)	-
Principal payments on long-term debt	(4,656,747)	(1,304,581)
Proceeds from long-term debt	11,470,000	83,644
Bond processing fees paid on long-term debt	(116,744)	(500)
Interest payments on long-term debt	(451,257)	(390,892)
Net cash provided (used) by capital and related financing activities	<u>2,483,781</u>	<u>(1,886,874)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Other income	3,051	-
Transfers from City for sales tax	2,781,505	3,399,590
Other transfers from (to) City	1,766	13,456
Net cash provided by non-capital financing activities	<u>2,786,322</u>	<u>3,413,046</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net activity of restricted cash	(4,813,268)	(334,572)
Interest received	98,114	8,686
Net cash used by investing activities	<u>(4,715,154)</u>	<u>(325,886)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	723,024	1,318,699
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,840,501</u>	<u>3,521,802</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,563,525</u>	<u>\$ 4,840,501</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, 2022 and 2021

	2022	2021
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (692,617)	\$ (560,905)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	719,775	705,509
(Increase) Decrease in:		
Accounts receivable	(110,953)	3,128
Sales tax receivable	138,351	(85,597)
Inventory	(23,888)	18,888
Other current assets	5,881	(17,881)
Prepaid expenses	15,561	(3,699)
Increase (Decrease) in:		
Accounts payable	88,372	46,330
Accrued liabilities	14,846	214
Customer deposits	12,747	12,426
	860,692	679,318
Net cash provided by operating activities	\$ 168,075	\$ 118,413

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, 2022 and 2021

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, 2022 management had determined that no additional accounts needed to be written off. Bad debt expense for the year ended December 31, 2022 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.

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.

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

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, 2022 and 2021

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

Reclassification

Certain 2021 items may have been reclassified in order to conform with the 2022 financial statement presentation.

Adoption of GASB 87

Effective January 1, 2022, the Department adopted GASB 87, Leases. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term.

Results for periods beginning prior to January 1, 2022 continue to be reported in accordance with our historical accounting treatment, based on relief provided in the practical expedients of this new standard. The adoption of GASB 87 did not have a material impact on the Department's results of operations or cash flows.

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, 2022.

NOTE 3 – CAPITAL ASSETS:

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	Balance 12/31/21	Additions	Retirements and transfers	Balance 12/31/22
Land & Improvements	\$ 387,298	\$ -	\$ -	\$ 387,298
Sewer System	10,218,187	-	-	10,218,187
Water System	16,385,847	-	-	16,385,847
Buildings	522,301	-	-	522,301
Equipment	677,364	199,316	-	876,680
Vehicles	161,577	19,105	-	180,682
Construction in Progress	8,528	-	-	8,528
	<u>28,361,102</u>	<u>\$ 218,421</u>	<u>\$ -</u>	<u>28,579,523</u>
Less Accumulated Depreciation	<u>(6,854,619)</u>			<u>(7,574,394)</u>
Total Net Capital Assets	<u>\$ 21,506,483</u>			<u>\$ 21,005,129</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 3 – CAPITAL ASSETS (continued):

	Balance 12/31/20	Additions	Retirements and transfers	Balance 12/31/21
Land & Improvements	\$ 387,298	\$ -	\$ -	\$ 387,298
Sewer System	10,218,187	-	-	10,218,187
Water System	16,164,968	220,879	-	16,385,847
Buildings	522,301	-	-	522,301
Equipment	658,324	19,040	-	677,364
Vehicles	135,479	26,098	-	161,577
Construction in Progress	-	8,528	-	8,528
	<u>28,086,557</u>	<u>\$ 274,545</u>	<u>\$ -</u>	<u>28,361,102</u>
Less Accumulated Depreciation	<u>(6,149,111)</u>			<u>(6,854,619)</u>
Total Net Capital Assets	<u>\$ 21,937,446</u>			<u>\$ 21,506,483</u>

NOTE 4 – LONG-TERM DEBT:

Long-term debt consists of the following:

	2022	2021
Arkansas Natural Resources Revenue Bonds, due in semi-annual installments of \$9,670, including interest at 4.6%, through June 2027. (1)	\$ 71,691	\$ 87,196
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds payable to UMB Bank, due annually through October 2032. Interest rates range from 2.0% to 4.25%.	-	3,040,000
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. (2)	5,215,000	6,230,000
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 all outstanding principal and interest to be made August 2024.	-	550,000
City of Tontitown, Arkansas Sales & Use Tax Refunding Bonds payable to Regions Bank, due annually through February 2052. Interest rates range from 2.5% to 4.0%. (3)	11,470,000	-
Loan payable to USDA, due in monthly installments of \$3,802, including interest at 1.875%, through July 2060. (4)	1,228,487	1,250,850
Loan payable to USDA, due in monthly installments of \$2,079, including interest at 1.875%, through September 2053. (4)	582,782	596,661
	<u>18,567,960</u>	<u>11,754,707</u>
Less Current Portion	<u>(468,100)</u>	<u>(505,100)</u>
Long-Term Debt, Net	<u>\$ 18,099,860</u>	<u>\$ 11,249,607</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 – LONG-TERM DEBT (continued):

- (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, 2022, 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 \$206,356 for the life of the bond.
- (3) The loan has restrictive covenants, including the requirement to maintain a debt service reserve fund in the amount of \$284,885 for the life of the bond.
- (4) The loans have restrictive covenants, including the requirement to begin accumulating a debt service reserve in monthly installments of \$589, until the reserve reaches \$70,572.

The annual maturities of long-term debt at December 31, 2022, are as follows:

	Principal	Interest	Total
2023	\$ 468,100	\$ 583,518	\$ 1,051,618
2024	484,600	564,381	1,048,981
2025	496,200	554,699	1,050,899
2026	517,700	528,725	1,046,425
2027	516,891	517,742	1,034,633
2028-2032	2,800,500	2,350,232	5,150,732
2033-2037	2,941,200	1,903,007	4,844,207
2038-2042	3,438,800	1,398,210	4,837,010
2043-2047	2,403,800	813,463	3,217,263
2048-2052	4,161,200	292,347	4,453,547
2053-2057	226,881	20,897	247,778
2058-2060	112,088	2,842	114,930
	<u>\$ 18,567,960</u>	<u>\$ 9,527,221</u>	<u>\$ 28,098,023</u>

Long-term liability activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance 12/31/21	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Sales & Use Tax Bonds	\$ 9,270,000	\$ 11,470,000	\$ (4,055,000)	\$ 16,685,000	\$ 415,000
Water Revenue Bonds	87,196	-	(15,505)	71,691	16,200
Loans	2,397,511	-	(586,242)	1,811,269	36,900
	<u>\$ 11,754,707</u>	<u>\$ 11,470,000</u>	<u>\$ (4,656,747)</u>	<u>\$ 18,567,960</u>	<u>\$ 468,100</u>

	Balance 12/31/20	Additions	Retirements	Balance 12/31/21	Due Within One Year
Long Term Debt					
Sales & Use Tax Bonds	\$ 10,240,000	\$ -	\$ (970,000)	\$ 9,270,000	\$ 420,000
Water Revenue Bonds	102,012	-	(14,816)	87,196	15,500
Loans	2,633,632	83,644	(319,765)	2,397,511	69,600
	<u>\$ 12,975,644</u>	<u>\$ 83,644</u>	<u>\$ (1,304,581)</u>	<u>\$ 11,754,707</u>	<u>\$ 505,100</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 4 – LONG-TERM DEBT (continued):

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$18,567,960 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 and loans are payable through 2060, 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, 2022 were \$4,656,747 and \$451,257, respectively. Principal and interest paid in the year ended December 31, 2021 were \$1,304,581 and \$390,892, respectively.

NOTE 5 – SUBSEQUENT EVENTS:

Management has evaluated all the activities of the Department through April 25, 2023 (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, 2022.

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:

	2022	2021
Debt Service Reserves	\$ 216,152	\$ 213,924
Bond Fund	1,284,426	1,116,810
Customer Meter Deposits	132,936	124,263
Construction Funds	5,491,746	566,852
	<u>\$ 7,125,260</u>	<u>\$ 2,021,849</u>

The long-term debt covenants require minimum reserves for debt service reserves (see Note 4). These funds are held investment accounts as seen in Note 9. The Series 2022B bond payable with Regions Bank required a debt service reserve be maintained in the amount of \$284,885, which has been satisfied as of December 31, 2022. These funds are maintained by the City in a debt service reserve fund, along with additional funds received from the Series 2022A bond payable with Regions Bank. These funds are represented on the Balance Sheet as "Debt service reserve held in trust by City".

	2022	2021
2002 Series Revenue Bond Fund	\$ 1,886	\$ 2,328
2013 Series Sales Tax Principal Account	-	58,772
2013 Series Sales Tax Bond Debt Service Reserve	-	198,379
2013 Series Sales Tax General Account	-	32,550
	<u>\$ 1,886</u>	<u>\$ 292,029</u>

CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 – 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, 2022, contributions by the Department were \$22,824.

NOTE 9 – 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.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value at December 31, 2022:

	Level 1	Level 2	Level 3	Total
Bond Funds	\$ <u>1,886</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,886</u>

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

	Costs	Fair Value
Bond Funds	\$ <u>1,886</u>	\$ <u>1,886</u>

**CITY OF TONTITOWN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021**

NOTE 10 – 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, 2022 and 2021 were \$1,160,915 and \$988,200, respectively. The agreement has a term expiring the later of April 2047 or such time as all NACA debt has been retired.

In the year ended December 31, 2022, the Department began buying materials to keep on hand for future water and sewer projects. As of December 31, 2022, the Department had spent \$1,935,581 out of the Water Construction Fund at Regions Bank, and an additional \$1,322,584 out of the Sewer Construction Fund at Regions Bank, for a total of \$3,258,165 in materials on hand to be used on future projects.



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*

**Honorable Angela Russell, 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, 2022, 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, 2023.

Report on 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) as a basis for designing 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.

Report on 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 Angela Russell, Mayor
and Members of the City Council
City of Tontitown
Page 2

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 25, 2023

No Intent

