

Southeast White County Water Association Public Water Authority

Financial Statements
with
Independent Auditors' Report
and Supplementary Information

December 31, 2016 and 2015

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Independent Auditors' Report

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast White County Water Association Public Water Authority (the Authority) as of and for the year ended December 31, 2016, 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.

Auditors' 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 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southeast White County Water Association Public Water Authority as of December 31, 2016 and 2015, 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.

Prior Period Financial Statements

The financial statements of Southeast White County Water Association Public Water Authority as of December 31, 2015, were audited by other auditors whose report dated May 13, 2016 expressed an unmodified opinion on those statements.

Other Matters

Accounting principles generally accepted in the United States of America require that the required supplemental information for cost-sharing employer plans on page 18 be presented to supplement the basic financial statements. Such 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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 statements 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 February 17, 2018, on our consideration of Southeast White County Water Association Public Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts, 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 Southeast White County Water Association Public Water Authority's internal control over financial reporting and compliance.

Bell's Company, PA

North Little Rock, Arkansas
February 17, 2018

Southeast White County Water Association Public Water Authority
Statements of Net Position
December 31, 2016 and 2015

Assets

	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 31,488	\$ 10,331
Restricted checking and deposits	220,676	201,119
Accounts receivable, net of allowance for doubtful accounts	127,211	83,230
Other receivables	-	42,569
Inventory	27,502	34,056
Total current assets	406,877	371,305
Capital assets		
Land and easements	21,310	21,310
Structures and improvements	3,107,630	3,107,630
Equipment	640,653	720,848
	3,769,593	3,849,788
Accumulated depreciation	(2,250,676)	(2,227,526)
Net capital assets	1,518,917	1,622,262
Other noncurrent assets		
Utility deposits	10	10
Total assets	1,925,804	1,993,577
Deferred Outflows		
Deferred outflows	78,196	57,785
Total assets and deferred outflows	\$ 2,004,000	\$ 2,051,362

Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
Current liabilities		
Accounts payable	\$ 30,591	\$ 25,474
Accrued expenses	20,119	4,187
Accrued sales tax	5,634	4,613
Accrued interest	1,315	1,315
Specific services payable	23,179	25,006
Customer meter deposits	121,693	118,764
Current portion of long-term debt	22,860	22,075
Total current liabilities	<u>225,391</u>	<u>201,434</u>
Long-term liabilities		
Long-term debt	433,796	456,654
Net pension liability	258,209	220,069
Total long-term liabilities	<u>692,005</u>	<u>676,723</u>
Total liabilities	917,396	878,157
Deferred inflows		
Deferred inflows of resources related to pension	25,991	71,780
Net position		
Net investment in capital assets	1,062,261	1,143,533
Restricted	107,539	107,539
Unrestricted	(109,187)	(149,647)
Total net position	<u>1,060,613</u>	<u>1,101,425</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,004,000</u>	<u>\$ 2,051,362</u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues		
Metered water sales, net of bad debts	\$ 926,008	\$ 900,972
Connection and other fees	28,338	29,212
Sewer billing and line maintenance revenue	39,423	43,975
Late charges	16,611	19,527
Other revenue	21,443	20,669
Total operating revenues	<u>1,031,823</u>	<u>1,014,355</u>
Operating expenses		
Advertising	880	60
Depreciation	101,956	106,218
Dues and subscriptions	4,549	7,744
Employee benefits	56,376	70,452
Equipment rental	10,771	13,054
Insurance	27,633	23,218
Licenses and permits	10,401	7,645
Miscellaneous expense	8,674	4,583
Office expenses	23,949	24,236
Operating supplies	47,075	85,855
Pension plan expense	47,295	65,471
Net outflows (inflows) of resources related to pension	(53,116)	-
Postage	4,464	5,321
Professional services	36,116	8,979
Repairs and maintenance	16,622	52,561
Salaries	230,923	289,630
Taxes - payroll	19,730	22,246
Theft	53,066	-
Training	4,296	2,454
Uniforms	4,052	5,403
Utilities and telephone	13,387	18,598
Vehicle expense	23,411	39,191
Water purchases	363,707	243,701
Total operating expenses	<u>1,056,217</u>	<u>1,096,620</u>
Operating income (loss)	(24,394)	(82,265)

	<u>2016</u>	<u>2015</u>
Nonoperating revenues (expenses)		
Gain/loss on disposal of assets	(1,389)	-
Interest income	273	254
Interest expense	(15,302)	(18,172)
Total nonoperating revenues (expenses)	<u>(16,418)</u>	<u>(17,918)</u>
Change in net position	(40,812)	(100,183)
Net position - beginning of year	<u>1,101,425</u>	<u>1,201,608</u>
Net position - end of year	<u>\$ 1,060,613</u>	<u>\$ 1,101,425</u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash receipts from customers and other sources	\$ 989,965	\$ 938,967
Cash payments to suppliers for goods and services	(628,160)	(700,653)
Cash payments to employees for services	(230,923)	(289,630)
Other operating cash payments	(53,066)	-
Net cash used by operating activities	<u>77,816</u>	<u>(51,316)</u>
Cash flows from investing activities		
Net certificate of deposit activity	-	89,205
Net restricted checking and deposits activity	(19,557)	438
Interest income	273	254
Net cash flows provided by investing activities	<u>(19,284)</u>	<u>89,897</u>
Cash flows from capital and related financing activities		
Cash paid for property, plant, and equipment	-	(125,844)
Proceeds from long-term debt	-	96,805
Principal paid on long-term debt	(22,073)	(21,693)
Interest paid on long-term debt	(15,302)	(17,992)
Net cash flows used by capital and related financing activities	<u>(37,375)</u>	<u>(68,724)</u>
Net decrease in cash and cash equivalents	21,157	(30,143)
Cash and cash equivalents - beginning of year	<u>10,331</u>	<u>40,474</u>
Cash and cash equivalents - end of year	<u><u>\$ 31,488</u></u>	<u><u>\$ 10,331</u></u>

	<u>2016</u>	<u>2015</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (25,783)	\$ (82,265)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	101,956	106,218
Gain/Loss on disposal of assets	1,389	-
Pension related adjustments	(28,060)	34,080
Changes in:		
Accounts receivable	(43,981)	10,564
Other receivables	42,569	(42,569)
Prepaid expenses	-	1,015
Inventory	6,554	1,929
Accounts payable	5,117	9,251
Accrued expenses	15,932	(3,587)
Accrued sales tax	1,021	(1,143)
Specific services payable	(1,827)	(83,253)
Customer meter deposits	2,929	(1,556)
Net cash provided by operating activities	<u>\$ 77,816</u>	<u>\$ (51,316)</u>

See accompanying notes.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

1. Summary of Significant Accounting Policies

- a. Reporting Entity** - Southeast White County Water Association Public Water Authority (the "Authority"), formally known as Southeast White County Water Association (the "Association"), was originally formed as a nonprofit organization chartered under the laws of the State of Arkansas. On December 31, 2008, the Association reorganized as a Public Water Authority of the State of Arkansas. The Authority provides water service to the residences and businesses in southeast White County, Arkansas. The Authority also provides sewer billing and line maintenance services for several small communities in the service area.
- b. 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 Authority. The Authority accounts for its operations as an enterprise fund. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a matter similar to private business or where the board of directors has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

- c. Cash Equivalents** - The Authority considers both restricted and unrestricted demand deposits, certificates of deposit, and money market funds to be cash equivalents.
- d. Accounts Receivable** - The Authority 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 and totaled \$16,698 and \$15,592 as of December 31, 2016 and 2015, respectively.
- e. Inventory** - Inventory consists of expendable materials and supplies necessary for maintenance of the system and is recorded at cost.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

- f. Capital Assets and Depreciation** - Capital assets are stated at cost. Depreciation is computed using the straight-line method 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:

	Years
Structures and improvements	5-50
Equipment	5-40

- g. Compensated Absences** - The Authority permits employees to accumulate earned but unused vacation and sick pay benefits. There was no accrual necessary for unpaid accumulated sick leave and vacation time as of December 31, 2016 and 2015.
- h. Net Position** - Net position represent the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Authority's financial statements. Net positions are classified in the following categories:

Net investment in capital assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of assets.

Restricted - This amount is restricted by creditors, granters, contributors, or laws or regulations of other governments.

Unrestricted - This amount is the net position that does not meet the definition of "net investment in capital assets" or "restricted net position". Generally, these net assets represent those financial resources that are available to the Authority to meet any future obligations that might arise.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted funds first, then the unrestricted resources as needed.

- i. 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.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

1. Summary of Significant Accounting Policies (Continued)

j. Budget - The Authority is not required by law to submit a formal budget.

k. Water Purchases - The Authority purchases all of the water sold to customers from the City of Searcy, Arkansas.

2. Cash Deposits

The Authority had deposits in three area banks which were fully FDIC insured at December 31, 2016 and 2015.

3. Restricted Assets

Restricted checking and deposits accounts at December 31, consists of the following:

As of December 31,	<u>2016</u>	<u>2015</u>
Meter deposit checking	\$ 25,874	\$ 24,816
Sewer billing account	19,208	709
Meter deposit CD	68,055	68,055
Debt service CD	75,386	75,386
Depreciation reserve CD	17,806	17,806
Employee group insurance trust CD	14,347	14,347
Total	<u>\$ 220,676</u>	<u>\$ 201,119</u>

4. Capital Assets

Activity of capital assets consists of the following:

	January 1,			December 31,
	<u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016</u>
Land	\$ 12,235	\$ -	\$ -	\$ 12,235
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,107,630	-	-	3,107,630
Equipment	720,848	-	80,195	640,653
Total	<u>\$ 3,849,788</u>	<u>\$ -</u>	<u>\$ 80,195</u>	<u>\$ 3,769,593</u>

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

4. Capital Assets (Continued)

	January 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	December 31, <u>2015</u>
Land	\$ 12,235	\$ -	\$ -	\$ 12,235
Easements and right-of-ways	9,075	-	-	9,075
Structures and improvements	3,001,401	106,229	-	3,107,630
Equipment	701,233	19,615	-	720,848
Total	<u>\$ 3,723,944</u>	<u>\$ 125,844</u>	<u>\$ -</u>	<u>\$ 3,849,788</u>

5. Long-Term Debt

Long-term debt of the Authority consists of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Rural Development - Payments are made monthly in the amount of \$1,009 and include interest of 5.000%. The loan is scheduled to mature in April 2036.	\$ 149,733	\$ 154,232
Rural Development - Payments are made monthly in the amount of \$1,369 and include interest of 3.250%. The loan is scheduled to mature in March 2035.	225,765	234,698
National Rural Water Association - Payments are made monthly in the amount of \$935 and include interest of 3.0%. The loan is secured by assets of the Authority and is schedule to mature in February 2025.	<u>81,158</u>	<u>89,799</u>
Total long-term debt	456,656	478,729
Less current maturities	<u>22,860</u>	<u>22,075</u>
Long-term debt	<u>\$ 433,796</u>	<u>\$ 456,654</u>

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

5. Long-Term Debt (Continued)

The Authority has a security agreement with the Rural Economic and Community Development Services which establishes a lien on all structures and improvements and a pledge of revenue to assure payment of principal and interest on the indebtedness until paid. Debt activity is summarized as follows:

	January 1,			December 31, Amounts Due	
	<u>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>2016</u>	<u>Within One Year</u>
Long-term debt	\$ 478,729	\$ -	\$ 22,073	\$ 456,656	\$ 22,860

	January 1,			December 31, Amounts Due	
	<u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>2015</u>	<u>Within One Year</u>
Long-term debt	\$ 403,617	\$ 96,805	\$ 21,693	\$ 478,729	\$ 22,075

Debt is scheduled to be repaid as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 22,860	\$ 16,893	\$ 39,753
2018	23,686	16,076	39,762
2019	24,525	15,228	39,753
2020	25,405	14,348	39,753
2021	26,317	13,436	39,753
2022-2026	125,413	52,779	178,192
2027-2031	111,313	31,367	142,680
2032-2036	97,137	8,069	105,206
Total	<u>\$ 456,656</u>	<u>\$ 168,196</u>	<u>\$ 624,852</u>

6. Reserve for Customer Deposits

The Authority collects a deposit for each new customer. The individual deposit amounts, included in total customer deposits vary, from \$10 in the 1970's to \$100 currently. The Authority is required to maintain cash reserves equal to the total amount of customer meter deposits. At December 31, 2016, the total amount of customer deposits was \$121,693 with a total cash reserve balance of \$93,929 resulting in a deficit of \$27,764. In 2010, the general operating account borrowed \$11,625 which has not been paid.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan

Plan Description

The Authority participates in the Arkansas Public Employees Retirement Systems (APERS). APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy

The Authority contributes an actuarially determined amount to the plan, which was 14.75% of annual covered payroll at December 31, 2016. Contributions made by the Authority were \$22,239, \$31,391, and \$32,220 for the years ended December 31, 2016, 2015, and 2014, respectively.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined from an average of the highest 36 calendar months of covered compensation (FAC) as follows:

Contributory Plan: 2.00% of FAC times years of service (2.03% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan (Continued)

Benefits Provided (Continued)

Non-Contributory Plan: 1.72% of FAC times years and months of credited service (1.75% for service prior to July 1, 2007), plus .5% of FAC times years of service over 28 years for service after July 1, 2009. If retirement is prior to age 62, an additional .33% of FAC times years of service will be paid until age 62. The portion of the APERS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at the time of retirement.

The minimum monthly benefit is \$150 minus any age and beneficiary option reductions. Annually, there will be a cost-of-living adjustment equal to 3% of the current benefit.

Members may retire with a full benefit, after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age. Members may retire with a reduced benefit after either (a) age 65 with 5 years of service, or (b) 28 years of actual service, regardless of age.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. If a death occurs while in APERS covered employment, member's accumulated contributions are refundable. If a member had 5 years of service, monthly benefits are payable instead. The surviving spouse receives a benefit computed as if a member had retired and elected the Joint & 75% Survivor Option. Payment begins immediately. Each dependent receives benefit of 10% of compensation (maximum of 25% for all children). If death occurs before total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (AC.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (AC.A. 24-2-701(c)(3)). Employers contributed 14.75% of compensation for the fiscal year ended June 30, 2016.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan (Continued)

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/publications>.

Measurement Date

The collective Net Pension Liability was measured as of June 30, 2016, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

Actuarial Assumptions

Assumptions were established based upon an Experience Study covering the period July 1, 2007 through June 30, 2012 (report dated February 13, 2013). Economic assumptions have been subsequently updated based on the Experience Study and the results of the Economic Assumption Review performed for the Arkansas Judicial Retirement System (report dated August 6, 2015). The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Amortization Period	21 years
Asset Valuation Method	4-Year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation (2.50% price inflation, 0.75% for real wage growth)
Salary Increases	3.95%-9.85% including inflation (3.25% - 5.95% including inflation for District Judges)
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2016 to 2025 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	38.00%	6.82%
International Equity	24.00%	6.88%
Real Assets	16.00%	3.07%
Absolute Return	5.00%	3.35%
Domestic Fixed	17.00%	0.83%
	<u>100.00%</u>	
 Total Real Rate of Return		 5.04%
Plus: Price Inflation - Actuary's Assumption		2.50%
Net Expected Return		<u>7.54%</u>

Single Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan (Continued)

Single Discount Rate (Continued)

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher:

1%	Current Single Rate Assumption	1%
Decrease		Increase
<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
\$ 390,863	\$ 258,209	\$ 147,808

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The Authority's proportionate share of pension expense was \$33,553 for the year ended June 30, 2016. The Authority's proportion of the collective net pension liability, based on the ratio of employer contributions to total employer contributions from all member employers less contributions from APERS, was 0.01079762% during that period. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 244	\$ 9,262
Net difference between projected and actual earnings in pension plan investments	45,081	-
Changes in assumptions	19,787	-
Changes in proportion and differences between employer contributions and share contributions	-	16,729
Authority contributions subsequent to the measurement date	13,084	-
Total	\$ 78,196	\$ 25,991

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

7. Pension Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

\$13,084 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u> <u>December 31</u>	<u>Net Deferred</u> <u>Outflows</u> <u>of Resources</u>
2017	\$ 11,803
2018	9,989
2019	21,847
2020	12,211
2021	-
Thereafter	-
	<u>\$ 55,850</u>

8. Concentrations of Credit Risk

Financial instruments that potentially subject the Authority to credit risk consist primarily of accounts receivable. The Authority sells only to its customers in and around southeast White County, Arkansas.

9. Risk Management

The Authority 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 Authority carries commercial insurance and workers compensation insurance through two major insurance companies.

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

Southeast White County Water Association Public Water Authority
Notes to Financial Statements
December 31, 2016 and 2015

10. Subsequent Events

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements through February 17, 2018, the date the financial statements were available to be issued.

At December 31, 2016, select financial records and transactions of the Authority were under review by the Arkansas Legislative Audit. Their report issued June 26, 2017, indicated unauthorized and/or undocumented disbursements to, as well as credit card charges by, two former employees of the Authority totaling \$377,024 after reimbursements and questionable amounts. When the report was issued, the Authority filed a claim for these fraudulent transactions with its insurance company and was issued a check for \$350,000 on August 7, 2017, which will be reported as income in 2017.

Supplementary Information

**Southeast White County Water Association Public Water Authority
Required Supplemental Information for Cost-Sharing Employer Plans
For the Year Ended December 31, 2016**

Schedule of Proportionate Share of Net Pension Liability and Related Ratios Last Fiscal Year

	APERS at <u>6/30/2016</u>	APERS at <u>6/30/2015</u>	APERS at <u>6/30/2014</u>
Organization's portion of the net pension liability (asset)	0.01079762%	0.01194904%	0.01201647%
Organization's proportionate share of the net pension liability	\$ 258,209	\$ 220,069	\$ 170,503
Organization's covered-employee payroll	\$ 268,282	\$ 214,365	\$ 212,453
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	96.25%	102.66%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	75.50%	80.39%	84.21%

Schedule of Required Contributions Last Fiscal Year

	APERS at <u>6/30/2016</u>	APERS at <u>6/30/2015</u>	APERS at <u>6/30/2014</u>
Contractually required contribution	\$ 28,367	\$ 31,640	\$ 31,613
Contributions in relation to the contractually required contribution	<u>(28,367)</u>	<u>(31,640)</u>	<u>(31,613)</u>
Contribution deficiency (excess)	<u> -</u>	<u> -</u>	<u> -</u>
Organization's covered-employee payroll	\$ 268,282	\$ 214,365	\$ 212,453
Contributions as a percentage of covered-employee payroll	10.57%	14.76%	14.88%

Note to Schedules:

Only the three fiscal years are presented because 10-year data is not yet available.

See independent auditors' report.

Report Required by Government Auditing Standards



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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*

To the Board of Commissioners
Southeast White County Water Association Public Water Authority
Higginson, 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 Southeast White County Water Association Public Water Authority (the Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 17, 2018, which was modified to reflect the omission of management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. 2016-001, 2016-002, 2016-003, 2016-4, 2016-005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-004.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was 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 of 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 compliances. Accordingly, this communication is not suitable for any other purpose.

Bell's Company, PA

North Little Rock, Arkansas
February 17, 2018

**Southeast White County Water Association Public Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> yes	___ no
Significant deficiency(ies) identified?	<u> X </u> yes	___ no
Noncompliance material to financial statements noted?	___ yes	<u> X </u> no

**Southeast White County Water Association Public Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section II – Financial Statement Findings

Material Weaknesses

2016-001 – Risk Assessment

Criteria or specific requirement: Management should identify and respond to risks that may affect accounting or financial reporting.

Condition: The risk assessment process was not properly designed and implemented, resulting in a lack of segregation of duties and proper controls to prevent risk of fraud.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud and to the design the nature, timing, and extent of further audit procedures was obtained.

Effect: Lack of segregations of duties and improper safeguards against the Authority's assets resulted in unauthorized/undocumented/questionable disbursements to two former employees totaling \$23,126 from January 1, 2016 through May 9, 2016, as reported by Arkansas Legislative Audit's Investigative Report dated June 26, 2017.

Cause: The Authority did not consider the potential for fraud in assessing risks to the achievement of financial reporting objectives.

Recommendation: The board should assess the risk of fraud when developing controls, which should consider incentives and pressures, attitudes, and rationalizations as well as the opportunity to commit fraud, and establish controls to mitigate those risks.

Views of responsible officials and planned corrective actions: We concur with the recommendations and have implemented corrective procedures. To the extent possible, accounting duties have been segregated among department employees to reduce the risk of fraud. We will conduct fraud assessment on all new and existing policies and controls.

2016-002 – Financial Close and Reporting

Criteria or specific requirement: Management should design and implement controls over financial reporting to prevent, or detect and correct, material misstatements in the financial statements.

Condition: Accounting period close was not properly performed.

**Southeast White County Water Association Public Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section II – Financial Statement Findings (Continued)

Material Weaknesses (Continued)

2016-002 – Financial Close and Reporting (Continued)

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud and to the design the nature, timing, and extent of further audit procedures was obtained. Also, while performing audit procedures within transaction classes, it was noted that there were material variances when compared to the prior periods as well as with subledger reports that were requested from the Authority.

Effect: Misstatements in the financial statements due to fraud in the amount of \$23,126 from January 1, 2016 through May 9, 2016, were not detected until the Arkansas Legislative Audit Investigative Report was issued June 26, 2017. There were also material misstatements due to incorrect posting of transactions within the Authority’s software to multiple accounts that were not detected until the December 31, 2016 financial statement audit.

Cause: Controls over financial close and reporting were not property designed and implemented.

Recommendation: The board should review budget to actual comparison statements throughout the year, and significant variances from budget and/or prior periods should be investigated. Transactions related to billings, collections, and payment of revenue-related liabilities need to be recoded within the software to post correctly.

Views of responsible officials and planned corrective actions: We concur with recommendation and have implemented corrective procedures. The board now reviews all bank statements and financial transactions monthly. We will also institute a quarterly review of budget verse actual expenditures.

2016-003 – Billings Adjustments

Criteria or specific requirement: Management should deploy control activities through policies that establish what is expected and in procedures that put policies into action.

Condition: Procedures are lacking over processing billings adjustments.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud and to the design the nature, timing, and extent of further audit procedures was obtained.

**Southeast White County Water Association Public Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section II – Financial Statement Findings (Continued)

Material Weaknesses (Continued)

2016-003 – Billings Adjustments (Continued)

Effect: Personnel have the ability to adjust bills, including their own, that may not meet the entity's qualifications for an allowable adjustment. This could potentially result in a material misstatement due to fraud and/or error to the revenue and accounts receivable accounts.

Cause: Controls over processing billings adjustments were not properly designed or implemented.

Recommendation: All adjustment policies should be in writing and adhered to; all adjustments greater than amounts specified by the government's policies should be approved; there should be adequate segregation of duties among those who authorize adjustments, edit the receivables, and maintain access to cash.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible. The board will review current procedures for billing adjustments and implement written policies and controls to reduce the risk of fraud.

2016-004 – Cash Disbursements

Criteria or specific requirement: Management should select and develop control activities that contribute to the mitigation of risks to the achievement of financial reporting objectives to acceptable levels.

Condition: Controls over cash disbursements were not properly designed or implemented.

Context: An understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud and to the design the nature, timing, and extent of further audit procedures was obtained.

Effect: Employees had the ability to pay personal expenses through the company and issue unauthorized payroll checks, resulting in unauthorized/undocumented/questionable disbursements of \$23,126 from January 1, 2016 through May 9, 2016, as reported by Arkansas Legislative Audit's Investigative Report dated June 26, 2017.

Cause: Small size made it difficult for management to establish segregation of duties and proper oversight over cash disbursements.

**Southeast White County Water Association Public Water Authority
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

Section II – Financial Statement Findings (Continued)

Material Weaknesses (Continued)

2016-004 – Cash Disbursements (Continued)

Recommendation: There should be adequate segregation of duties among those who initiate payments, prepare checks, sign checks/approve electronic payments; investigate discrepancies, and reconcile banks.

Views of responsible officials and planned corrective actions: We concur with the recommendation and have implemented corrective procedures to the extent possible. All checks are now required to have a Board member signature, specifically either the Board President or Treasurer. Additionally, all bank statements and reconciliations are reviewed monthly by the Board.