

**SOUTHEAST WHITE COUNTY WATER
ASSOCIATION PUBLIC WATER AUTHORITY**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014



**SOUTHEAST WHITE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY
DECEMBER 31, 2015 AND 2014**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Southeast White County Water Association Public Water Authority, (the Authority), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Authority's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant account estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeast White County Water Association Public Water Authority as of December 31, 2015 and 2014, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principal

As discussed in Note 7 to the financial statements, in 2015 the Authority adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

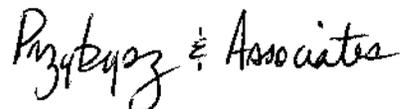
Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the 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 May 13, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
May 13, 2016

FINANCIAL STATEMENTS

**SOUTHEAST WHITE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY**

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,331	\$ 40,474
Restricted checking and deposits	201,119	201,557
Certificates of deposits	-	89,205
Accounts receivable, net of allowance for doubtful accounts	83,230	93,794
Other receivables	42,569	-
Prepaid expenses	-	1,015
Inventory	34,056	35,985
Total Current Assets	371,305	462,030
Noncurrent Assets		
Utility deposits	10	10
Capital Assets		
Land and easements	21,310	21,310
Structures and improvements	3,107,630	3,001,401
Equipment	720,848	701,233
Total	3,849,788	3,723,944
Accumulated depreciation	(2,227,526)	(2,121,308)
Net Capital Assets	1,622,262	1,602,636
Total Noncurrent Assets	1,622,272	1,602,646
Total Assets	1,993,577	2,064,676
Deferred Outflows		
Deferred outflows of resources related to pension	57,785	-
Total Deferred Outflows	\$ 57,785	\$ -

See accompanying notes to financial statements.

**SOUTHEAST WHITE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY**

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2015	2014
Liabilities		
Current Liabilities		
Accounts payable	\$ 25,474	\$ 16,223
Accrued expenses	4,187	7,774
Accrued sales tax	4,613	5,756
Accrued interest	1,315	1,135
Specific services payable	25,006	108,259
Customer meter deposits	118,764	120,320
Current portion of long-term debt	22,075	14,689
Total Current Liabilities	201,434	274,156
Noncurrent Liabilities		
Long-term debt	456,654	388,928
Net pension liability	220,069	-
Total Noncurrent Liabilities	676,723	388,928
Total Liabilities	878,157	663,084
Deferred Inflows		
Deferred inflows of resources related to pension	71,780	-
Total Deferred Inflows	71,780	-
Net Position		
Net investment in capital assets	1,143,533	1,209,132
Restricted	107,539	107,344
Unrestricted	(149,647)	85,116
Total Net Position	\$ 1,101,425	\$ 1,401,592

See accompanying notes to financial statements.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2015	2014
Operating Revenue		
Metered water sales, net of bad debts	\$ 900,972	\$ 900,659
Connection and other fees	29,212	33,065
Sewer billing and line maintenance revenue	43,975	43,200
Late charges	19,527	21,187
Other revenue	20,669	12,600
Total Operating Revenue	1,014,355	1,010,711
Operating Expenses		
Advertising	60	148
Depreciation	106,218	107,957
Dues and subscriptions	7,744	7,763
Employee benefits	70,452	70,491
Equipment rental	13,054	3,662
Insurance	23,218	24,573
Licenses and permits	7,645	11,321
Miscellaneous expense	4,583	39,580
Office expense	24,236	13,746
Operating supplies	85,855	76,894
Pension plan expense	65,471	32,220
Postage	5,321	9,858
Professional services	8,979	4,645
Repairs and maintenance	52,561	22,089
Salaries	289,630	297,794
Taxes - payroll	22,246	24,394
Training	2,454	5,622
Uniforms	5,403	5,467
Utilities and telephone	18,598	11,807
Vehicle expense	39,191	36,798
Water purchases	243,701	252,467
Total Operating Expenses	1,096,620	1,059,296
Operating Income (Loss)	(82,265)	(48,585)
Nonoperating Revenue (Expenses)		
Interest income	254	1,035
Gain on disposition of assets	-	1,500
Interest expense	(18,172)	(16,193)
Total Nonoperating Revenue (Expenses)	(17,918)	(13,658)
Change In Net Position	(100,183)	(62,243)
Net Position, Beginning of Year, as previously stated	1,401,592	1,463,835
GASB 68 Implementation adjustment	(199,984)	-
Net Position, Beginning of Year, as restated	1,201,608	1,463,835
Net Position, End of Year	\$ 1,101,425	\$ 1,401,592

See accompanying notes to financial statements.

**SOUTHEAST WHITE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2015	2014
Cash Flows From Operating Activities		
Cash receipts from customers and other sources	\$ 938,967	\$ 950,602
Cash payments to suppliers for goods and services	(700,653)	(506,504)
Cash payments to employees for services	(289,630)	(302,267)
Net Cash Provided By (Used) Operating Activities	(51,316)	141,831
Cash Flows From Investing Activities		
Net certificate of deposit activity	89,205	(25)
Net restricted checking and deposits activity	438	(790)
Interest income	254	1,035
Net Cash Provided By Investing Activities	89,897	220
Cash Flows From Capital and Related Financing Activities		
Cash paid for property, plant, and equipment	(125,844)	(83,465)
Proceeds from disposition of assets	-	1,500
Proceeds from long-term debt	96,805	-
Principal paid on long-term debt	(21,693)	(14,378)
Interest paid on long-term debt	(17,992)	(16,235)
Net Cash Used By Capital and Related Financing Activities	(68,724)	(112,578)
Net Increase (Decrease) In Cash and Cash Equivalents	(30,143)	29,473
Cash and Cash Equivalents, Beginning of Year	40,474	11,001
Cash and Cash Equivalents, End of Year	\$ 10,331	\$ 40,474
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating loss	\$ (82,265)	\$ (48,585)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	106,218	107,957
Pension related adjustments	34,080	-
Changes in:		
Accounts receivable	10,564	(10,440)
Other receivables	(42,569)	-
Prepaid expenses	1,015	2,889
Inventory	1,929	1,557
Accounts payable	9,251	(11,593)
Accrued expenses	(3,587)	7,625
Accrued sales tax	(1,143)	5,756
Bank overdrafts	-	(11,036)
Accrued compensated absences	-	(4,473)
Specific services payable	(83,253)	86,434
Customer meter deposits	(1,556)	15,740
Net Cash Provided (Used) By Operating Activities	\$ (51,316)	\$ 141,831

See accompanying notes to financial statements.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

Nature of Operations

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.

1. Summary of Significant Accounting Policies

a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the 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.

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

b. Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents excluding restricted cash.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

1. Summary of Significant Accounting Policies (continued)

c. 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 \$15,592 and \$15,862 as of December 31, 2014 and 2015, respectively.

d. 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:

	<u>YEARS</u>
Structures and improvements	5-50
Equipment	5-40

e. Inventory

Inventory consists of expendable materials and supplies necessary for maintenance of the system and is recorded at cost.

f. 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, 2015 and 2014.

g. 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, grantors, contributors, or laws or regulations of other governments.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

1. Summary of Significant Accounting Policies (continued)

g. Net Position (continued)

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.

h. Income Tax Status

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

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.

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, 2015 and 2014.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

3. Restricted Assets

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

As Of December 31,	2015	2014
Meter deposit checking	\$ 24,816	\$ 24,985
Sewer billing account	709	1,216
Meter deposit CD	68,055	67,919
Debt service CD	75,386	75,304
Depreciation reserve CD	17,806	17,786
Employee group insurance trust CD	14,347	14,347
Total	\$ 201,119	\$ 201,557

4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2015	Additions	Retirements	December 31, 2015
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	\$ 3,723,944	\$ 125,844	\$ -	\$ 3,849,788

As Of	January 1, 2014	Additions	Retirements	December 31, 2014
Land	\$ 12,235	\$ -	\$ -	\$ 12,235
Easements and right-of-ways	8,955	120	-	9,075
Structures and improvements	2,979,569	21,832	-	3,001,401
Equipment	662,962	61,513	23,242	701,233
Total	\$ 3,663,721	\$ 83,465	\$ 23,242	\$ 3,723,944

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

5. Long-Term Debt

Long-term debt of the Authority consists of:

AS OF DECEMBER 31,	2015	2014
Rural Development - Payments are made monthly in the amount of \$173 and include interest of 5.000%. The loan is scheduled to mature in November 2015.	\$ -	\$ 1,760
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.	154,232	158,512
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.	234,698	243,345
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 scheduled to mature in February 2025.	89,799	-
Total long-term debt	478,729	403,617
Less current maturities	22,075	14,689
Long-term debt	\$ 456,654	\$ 388,928

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 is scheduled to be repaid as follows:

December 31,	Principal	Interest	Total
2016	\$ 22,075	\$ 17,678	\$ 39,753
2017	22,863	16,890	39,753
2018	23,680	16,073	39,753
2019	24,528	15,225	39,753
2020	25,408	14,345	39,753
2021-2025	131,991	57,426	189,417
2026-2030	107,060	35,620	142,680
2031-2035	117,531	16,589	134,120
2036	3,593	2,737	6,330
Total	\$ 478,729	\$ 192,583	\$ 671,312

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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, 2015, the total amount of customer deposits was \$118,764 with a total cash reserve balance of \$92,871 resulting in a deficit of \$25,893. In 2010, the general operating account borrowed \$11,625 which has not been paid.

7. Pension Plan

Implementation of GASB 68 - Restatement of Prior Year Ending Net Position

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27*, which became effective with fiscal year ending June 30, 2015. The Statement establishes standards for public pension plan obligations for participating employers. Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the statement of net position a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. Accordingly, the effect of this was to add \$170,503 to net pension liability, add \$20,197 to deferred outflows of resources related to pension, add \$69,223 to deferred inflows of resources related to pension and reduce unrestricted net position by \$170,503 as of December 31, 2015.

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.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

7. Pension Plan (continued)

Plan Description (continued)

Funding Policy: The Authority contributes an actuarially determined amount to the plan, which was 14.50% of annual covered payroll at December 31, 2015. Contributions made by the Authority were \$31,391 and \$32,220 for the years ended December 31, 2015 and 2014, respectively. Employees are not required to contribute to the plan.

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 as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005	2.03%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with 5 years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of actual service.

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 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 after retirement, if total monthly benefit payments equal member's accumulated contributions, the difference is refunded.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

7. Pension Plan (continued)

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 (A.C.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 (A.C.A. 24-2-701(c)(3)). Employers contributed 14.76% of compensation for the fiscal year ended June 30, 2015. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

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/annualreports>.

Measurement Date

The collective Net Pension Liability was measured as of June 30, 2015, 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

The total pension liability in the June 30, 2015 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, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	25 years (13 years for District Judges New Plan/Paid Off Old Plan and 20 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-Year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

7. Pension Plan (continued)

Actuarial Assumptions (continued)

Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25% – 9.85% including inflation (3.25% - 6.96% 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

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 2015 to 2024 were based upon capital market assumptions provided by the plan's investment consultant(s). 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	42%	6.82%
International Equity	25%	6.88%
Real Assets	12%	3.07%
Absolute Return	5%	3.35%
Domestic Fixed	16%	0.83%
	<u>100%</u>	
Total Real Rate of Return		5.25%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		0.10%
Net Expected Return		<u>7.65%</u>

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

7. Pension Plan (continued)

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.

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% Decrease 6.50%	Current Single Rate Assumption 7.50%	1% Increase 8.50%
\$ 362,511	\$ 220,069	\$ 101,608

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 \$26,106 for the year ended June 30, 2015. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

7. Pension Plan (continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 14,317
Changes in assumptions	42,553	-
Net difference between projected and actual earnings on pension plan investments	-	56,767
Changes in proportion and differences between employer contributions and share contributions	-	696
Authority contributions subsequent to the measurement date	<u>15,232</u>	<u>-</u>
Total	<u>\$ 57,785</u>	<u>\$ 71,780</u>

\$15,232 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, 2016, 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 Ended December 31,</u>	<u>Changes in Proportion and Contributions</u>	<u>Differences in Experience</u>	<u>Changes in Assumptions</u>	<u>Differences in Earnings</u>	<u>Net Reduction in Pension Expense</u>
2016	\$ (268)	\$ (3,609)	\$ 11,458	\$ (15,595)	\$ (8,014)
2017	(268)	(3,609)	11,458	(15,595)	(8,014)
2018	(160)	(3,609)	11,458	(15,595)	(7,906)
2019	-	(3,184)	7,492	(8,889)	(4,581)
2020	-	(306)	687	(1,093)	(712)
	<u>\$ (696)</u>	<u>\$ (14,317)</u>	<u>\$ 42,553</u>	<u>\$ (56,767)</u>	<u>\$ (29,227)</u>

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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.

10. Subsequent Events

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2015 through May 13, 2016, the date the financial statements were available to be issued.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

Required Supplement Information for Cost-Sharing Employer Plans

FOR THE YEAR ENDED DECEMBER 31, 2015

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

	APERS at June 30, 2014	APERS at June 30, 2015
Organization's proportion of the net pension liability (asset)	0.01201647%	0.01194904%
Organization's proportionate share of the net pension liability	\$ 170,503	\$ 220,069
Organization's covered-employee payroll	\$ 212,453	\$ 214,365
Organization's proportionate share of the net pension liability as a percentage of its covered-employee payroll	80.25%	102.66%
Plan fiduciary net position as a percentage of the total pension liability	84.21%	80.39%

Schedule of Required Contributions Last Fiscal Year

	APERS at June 30, 2014	APERS at June 30, 2015
Contractually required contribution	\$ 31,613	\$ 31,640
Contributions in relation to the contractually required contribution	\$ (31,613)	\$ (31,640)
Contribution deficiency (excess)	\$ -	\$ -
Organization's covered-employee payroll	\$ 212,453	\$ 214,365
Contributions as a percentage of covered-employee payroll	14.88%	14.76%

Note to Schedules:

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

See independent auditor's report.

ADDITIONAL REPORT



**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Southeast White County Water Association Public Water Authority ("the Authority"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Authority's financial statements, and have issued our report thereon dated May 13, 2016, which was modified to reflect the omission of the management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs (2015-1 Internal Control over Credit Card Purchases and Payments) to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs (2015-2 Billing System Errors and New System Implementation and 2015-3 New Accounting System Implementation and Bookkeeping) to be significant deficiencies.

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, 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 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 (2015-1 Internal Control over Credit Card Purchases and Payments, 2015-2 Billing System Errors and New System Implementation and 2015-3 New Accounting System Implementation and Bookkeeping).

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

This 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 Authority's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
May 13, 2016

**SOUTHEAST WHITE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Section I - Summary of Auditor's Results

Financial Statements

Types of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(ies) identified?

yes no

Noncompliance material to financial statements noted?

yes no

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Section II - Financial Statement Findings - Current Year

Material Weaknesses

2015-1 - Internal Control over Credit Card Purchases and Payments

Criteria or specific requirement: Internal controls concerning duties over credit card purchases and payments should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties amongst Authority personnel. There is also a lack of oversight concerning the payments and review of the credit card statements. Specifically certain key weaknesses included the following: the credit card payments were paid via checks where the check signor was the same individual making the credit card purchases. This lack of internal controls lead to fraudulent credit card purchases made by two individuals which was not caught until audit fieldwork.

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 design the nature, timing, and extent of further audit procedures was obtained.

Effect: The Authority's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard the authority's assets. The Authority's assets was adversely affected by the identified weakness in the above internal control components. Two individuals made fraudulent credit card purchases during the year amounting in total to \$42,569, which is recorded as an employee receivable for 2015. The two individuals have already agreed to pay back the total amount of the fraudulent charges. Fraudulent charges made in the subsequent year amounted to \$6,543 which the two individuals have also agreed to pay back.

Cause: Department management, due to cost/benefit implications, which hindered the Authority's ability to adequately segregate financial accounting duties amongst employees, did not effectively address the deficiencies in internal control. Lack of oversight also hindered the Authority's ability to monitor the credit card purchases.

Recommendation: The duties relating to credit card purchases should be separated as much as possible, and alternative controls should be used to compensate for the lack of separation of duties. The governing board should also provide some of these controls; including, but not limited to signing checks and reviewing credit card statements.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Section II - Financial Statement Findings - Current Year

Significant Deficiency

2015-2 - Billing System Errors and New System Implementation

Criteria or specific requirement: Internal controls concerning duties over the billing system and new system implementation should be in place. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control relating to initiating, authorizing, recording, processing and reporting transactions relating to the billing system and new billing system implementation.

Condition: Deficiencies in the internal control component of control activities adversely affected the Authority's ability to initiate, authorize, record, process, and report financial data such that there was a reasonable possibility that a material misstatement of the Authority's financial statements would not be prevented, or detected and corrected on a timely basis. Specifically, certain key weaknesses included the following: client had noted in the past that sewer billing rates were not reimbursed correctly for each Town the client collects sewer payments for, and that the new accounting system (QS-1) had several billing errors and issues which caused significant effort by the client to manually correct each month.

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 design the nature, timing, and extent of further audit procedures was obtained.

Effect: The Authority's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard the Authority's assets. Management had to reimburse in the current year the Towns for sewer revenue which was initially incorrectly charged in the prior years. Management had several issues regarding billing, recording and reconciling revenues in the current year with the new QS-1 billing system.

Cause: Authority management, due to cost/benefit implications, which hindered the Authority's ability to adequately segregate financial accounting duties amount employees, did not effectively address the deficiencies in internal control. Lack of management oversight hindered the Authority's ability to monitor the billing system.

Recommendation: The duties relating to the billing system should be separated as much as possible, and alternative controls should be used to ensure accurate billings regarding recording and reconciling revenues. We further recommend that the client be in contact with the QS-1 billing system representatives to ensure correct and accurate billings in the system.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.

SOUTHEAST WHITE COUNTY WATER ASSOCIATION PUBLIC WATER AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2015

Section II - Financial Statement Findings - Current Year

Significant Deficiency

2015-3 - New Accounting System Implementation and Bookkeeping

Criteria or specific requirement: Internal controls concerning duties over bookkeeping and the new accounting system implementation should be in place. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control relating to initiating, authorizing, recording, processing and reporting transactions relating to bookkeeping and the new accounting system implementation.

Condition: Deficiencies in the internal control component of control activities adversely affected the Authority's ability to initiate, authorize, record, process, and report financial data such that there was a reasonable possibility that a material misstatement of the Authority's financial statements would not be prevented, or detected and corrected on a timely basis. Specifically, certain key weaknesses included the following: client had several issues recording and reconciling their billing system, fixed assets, accounts receivable, accounts payable and payroll to their new accounting system.

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 design the nature, timing, and extent of further audit procedures was obtained.

Effect: The Authority's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard the Authority's assets.

Cause: Department management, due to cost/benefit implications, which hindered the Authority's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiencies in internal control. Lack of oversight by management regarding the recording, reconciling and review of the accounting system lead to inaccuracies in the new accounting system.

Recommendation: The duties relating to the accounting system should be separated as much as possible, and alternative controls should be used to ensure accurate financial reporting. We further recommend that if management is unable to perform the recording, reconciling and review of the accounting system, consideration should be given to allow an outside party such as a bookkeeping firm to perform these functions.

Views of responsible officials and planned corrective actions: We concur with the recommendation and will implement corrective procedures to the extent possible.