

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY STATE OF ARKANSAS
FOX, ARKANSAS

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
West Stone County Water Association, Public Water Authority, State of Arkansas

We have audited the accompanying financial statements of the West Stone County Water Association, Public Water Authority, State of Arkansas, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Stone County Water Association, Public Water Authority, State of Arkansas, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management 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 October 19, 2018, on our consideration of the West Stone County Water Association, Public Water Authority, State of Arkansas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the West Stone County Water Association, Public Water Authority, State of Arkansas internal control over financial reporting and compliance.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
October 19, 2018

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF STATE OF ARKANSAS
STATEMENT OF NET POSITION
JUNE 30, 2018 AND 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total June 30, 2018</u>	<u>Memo Totals June 30, 2017</u>
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 177,339	\$ -	\$ 177,339	\$ 144,552
Accounts receivable - water sales	115,668	-	115,668	105,483
Prepaid expenses	5,829	-	5,829	-
Total Current Assets	<u>298,836</u>	<u>-</u>	<u>298,836</u>	<u>250,035</u>
Property, Plant, and Equipment:				
Land	10,100	-	10,100	10,100
Property, plant, and equipment, net	6,484,929	-	6,484,929	6,760,484
Total Property, Plant, and Equipment	<u>6,495,029</u>	<u>-</u>	<u>6,495,029</u>	<u>6,770,584</u>
Other assets				
Restricted assets	-	243,415	243,415	243,366
Total Other Assets	<u>-</u>	<u>243,415</u>	<u>243,415</u>	<u>243,366</u>
Total Assets	<u>\$ 6,793,865</u>	<u>\$ 243,415</u>	<u>\$ 7,037,280</u>	<u>\$ 7,263,985</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>				
Current Liabilities:				
Accounts payable	\$ 30,911	\$ -	\$ 30,911	\$ 33,305
Accrued taxes, payroll & benefits	11,595	-	11,595	10,998
Accrued interest payable	23,616	-	23,616	18,172
Customer meter deposits	-	59,558	59,558	57,980
Current portion long-term debt	97,594	-	97,594	111,571
Total Current Liabilities	<u>163,716</u>	<u>59,558</u>	<u>223,274</u>	<u>232,026</u>
Long-term Liabilities				
Bonds and notes payable	2,155,423	-	2,155,423	2,251,571
Less: Current portion long-term debt	<u>(97,594)</u>	<u>-</u>	<u>(97,594)</u>	<u>(111,571)</u>
Total Long-term Liabilities	<u>2,057,829</u>	<u>-</u>	<u>2,057,829</u>	<u>2,140,000</u>
Total Liabilities	<u>2,221,545</u>	<u>59,558</u>	<u>2,281,103</u>	<u>2,372,026</u>
Deferred Inflows of Resources				
Deferred revenue	16,607	-	16,607	16,996
Total Deferred Inflows of Resources	<u>16,607</u>	<u>-</u>	<u>16,607</u>	<u>16,996</u>
Net Position				
Unrestricted Net Position	216,107	-	216,107	170,564
Net investment in capital assets	4,339,606	-	4,339,606	4,519,013
Restricted Net Position	<u>-</u>	<u>183,857</u>	<u>183,857</u>	<u>185,386</u>
Total Net Position	<u>4,555,713</u>	<u>183,857</u>	<u>4,739,570</u>	<u>4,874,963</u>
Total Liabilities and Deferred Inflows of Resources and Net Position	<u>\$ 6,793,865</u>	<u>\$ 243,415</u>	<u>\$ 7,037,280</u>	<u>\$ 7,263,985</u>

The accompanying notes are an integral part of these financial statements.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF STATE OF ARKANSAS
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Unrestricted	Temporarily Restricted	Total June 30, 2018	Memo Totals June 30, 2017
Operating revenue				
Water revenue	\$ 1,047,922	\$ -	\$ 1,047,922	\$ 961,759
Tap and connection fees	29,000	-	29,000	23,950
Inspection fees	1,300	-	1,300	1,320
Net transfers from restricted assets	1,529	(1,529)	-	-
Other income	1,251	-	1,251	3,718
Total Revenue	1,081,002	(1,529)	1,079,473	990,747
Operating expenses				
Water purchased	318,012	-	318,012	268,937
Depreciation expense	275,555	-	275,555	276,043
Salaries	219,046	-	219,046	211,648
Water distribution system repairs	85,013	-	85,013	82,086
Utilities and phone	64,408	-	64,408	60,697
Insurance	18,588	-	18,588	23,691
Postage	8,152	-	8,152	7,451
Sales tax	71,767	-	71,767	66,789
Vehicle expenses	24,999	-	24,999	18,618
Payroll taxes	16,352	-	16,352	16,297
Fees and dues	17,333	-	17,333	17,311
Miscellaneous expenses	12,933	-	12,933	1,045
Office supplies	4,803	-	4,803	5,496
Total operating expenses	1,136,961	-	1,136,961	1,056,109
Net operating income (loss)	(55,959)	(1,529)	(57,488)	(65,362)
Nonoperating revenue (expense)				
Interest income	1,201	-	1,201	442
Other income/reimbursements	1,470	-	1,470	4,428
Interest expense	(80,576)	-	(80,576)	(74,021)
Other income (expense), net	(77,905)	-	(77,905)	(69,151)
Increase (decrease) in net position	\$ (133,864)	\$ (1,529)	\$ (135,393)	\$ (134,513)

The accompanying notes are an integral part of these financial statements.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF STATE OF ARKANSAS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>Unrestricted Net Position</u>	<u>Restricted Net Position</u>	<u>Total June 30, 2018</u>	<u>Memo Totals June 30, 2017</u>
Net assets at beginning of year	4,689,577	185,386	4,874,963	5,009,476
Change in net position	(133,864)	(1,529)	(135,393)	(134,513)
Net assets at end of year	<u>\$ 4,555,713</u>	<u>\$ 183,857</u>	<u>\$ 4,739,570</u>	<u>\$ 4,874,963</u>

The accompanying notes are an integral part of these financial statements.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF STATE OF ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,070,476	\$ 977,783
Net (deposits)/releases (to)/from restricted assets	1,422	257
Cash paid for water	(318,012)	(268,937)
Cash paid to suppliers	(326,530)	(303,611)
Cash paid to employees	<u>(219,046)</u>	<u>(211,648)</u>
Net cash provided (used) by operating activities	<u>208,310</u>	<u>193,844</u>
Cash flows from investing activities		
Interest income	<u>1,201</u>	<u>443</u>
Net cash provided (used) by investing activities	<u>1,201</u>	<u>443</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	-	(22,314)
Cash received from insurance/reimbursements	-	4,428
Principal paid on capital debt	(96,148)	(99,719)
Interest paid on capital debt	<u>(80,576)</u>	<u>(74,021)</u>
Net cash provided (used) by capital and related financing activities:	<u>(176,724)</u>	<u>(191,626)</u>
Net increase (decrease) in cash and cash equivalents	32,787	2,661
Cash and cash equivalents at beginning of year	<u>144,552</u>	<u>141,891</u>
Cash and cash equivalents at end of year	<u>\$ 177,339</u>	<u>\$ 144,552</u>

The accompanying notes are an integral part of these financial statements.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF STATE OF ARKANSAS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Reconciliation of operating income/(loss) to net cash provided /(used) by operating activities		
Net operating income/(loss)	\$ (57,488)	\$ (65,362)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	275,555	276,043
Change in assets and liabilities which provided/(used) cash		
Accounts receivable	(10,186)	(13,221)
Prepays and other receivables	(5,829)	-
Restricted assets	1,422	(5,627)
Accounts and other payables	3,051	(3,027)
Customer meter deposits	1,578	5,884
Deferred revenue	(390)	1,484
Accrued expenses	597	(2,330)
Net cash provided (used) by operating activities	<u>\$ 208,310</u>	<u>\$ 193,844</u>

The accompanying notes are an integral part of these financial statements.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The West Stone County Water Association (the Association) was organized as a Public Water Authority of the State of Arkansas for the purpose of distributing water to its rural constituency in Stone County, Arkansas.

Basis of Accounting

The financial statements of the Association are prepared in accordance with generally accepted accounting principles (GAAP). It applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements and apply all FASB pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

Operating revenues and expenses are distinguished from other income (expense) items in the statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues (expenses) not meeting this definition are reported as other nonoperating income (expenses), but remain a major component of the overall revenues and expenses of the Association.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net position and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and regulatory requirements. Accordingly, net position of the System and changes therein are classified and reported as follows as required by GASB:

Unrestricted Net Position - consists of all other fund position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Restricted Net Position - Component of net position that consist of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Net investment in Capital Assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowing that is attributable to the acquisition, construction, or improvement of those assets.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Use of estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Fair value of financial instruments

The estimated fair values of the Association's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Income taxes

The Association is a political subdivision of the State of Arkansas and is exempt from federal income taxes.

Management has evaluated the Association's tax position and concluded the Association had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provision of this guidance. With few exceptions, the Association is no longer subject to income tax examinations by the United States federal, state or local authorities for years before 2013.

Concentration of Credit Risk

Sales of water services are made on open account to customers located in the West Stone County Water area and are collateralized to the extent of each customer's meter deposit.

Concentration of Custodial Risk

The Association had deposits in multiple local banks. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each institution up to \$250,000. The custodial risk is the risk that in the event of bank failure, the Association's deposits may not be returned to the system. The Association's deposit policy for custodial credit risk requires compliance with the provisions of the state law. State law requires collateralization of all deposits with federal depository insurance, bond and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Arkansas. At June 30, 2018 and 2017, all of the Department's deposits were insured or collateralized.

Concentration of Vendor Risk

Purchases for the years ended June 30, 2018 and 2017, the Association purchased \$318,010 and \$268,937 of water from Mountain View and Community Water. These purchases accounted for 100% of the water purchased by the Association. Management believes no significant risk is present under this arrangement.

Cash and cash equivalents

Cash and cash equivalents include all short term highly liquid investments with original maturities of three months or less which are readily convertible to cash.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Accounts receivable

Accounts receivable consist of amounts due for water sales and various miscellaneous charges. Meter deposits are considered to adequately cover past due accounts, therefore no allowance for doubtful accounts has been recorded. Bad debt expense for the years ended June 30, 2018 and 2017 was \$10,699 and \$0, respectively.

Property and equipment

Acquisitions of property and equipment in excess of \$1,000 and a useful life of greater than one year are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Depreciation is computed using primarily the straight-line method over the following estimated useful lives:

Buildings	39-40 years
Vehicles and equipment	5-15 years
Land	Indefinite
Water distribution system	40 years

Depreciation expense was \$275,555 and \$276,043 for the years ended June 30, 2018 and 2017, respectively.

Customer deposits

As a security for payment of bills, the Association requires a deposit from customers. No interest is paid on such deposits.

Revenue recognition

The Association's revenue is derived primarily from water. Revenue is recognized on the accrual basis and is recorded as services are provided. Operating revenues result from providing services in connection with the principal ongoing operations. Non-operating revenues represent all other revenue not meeting this definition.

Sales taxes

Sales taxes charged to the Association's customers are recorded as revenue when received. An expense is then recorded when these amounts are remitted to the appropriate taxing authority. Sales tax expense is a component of operating expenses.

Deferred outflows/inflows of resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then. The Association's deferred inflows consist of deferred revenue, which are prepayments received from customers, that will be recognized as income when water usage is billed to the customer.

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Subsequent Events

Management has evaluated subsequent events through October 19, 2018, the date which the financial statements were available to be issued.

2) RESTRICTED ASSETS AND BOARD DESIGNATED RESERVES

Restricted assets consist of customer meter deposits and bond reserve accounts. Board designated reserves are included in unrestricted cash on the Statement of Financial Position.

Temporarily restricted assets at June 30, 2018 and 2017 consist of the following:

	2018	2017
Customer meter deposits	\$ 59,558	\$ 57,980
Reserve accounts – debt reserves	183,857	185,386
Total temporarily restricted assets	\$ 243,415	\$ 243,366

3) PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017, the carrying value and accumulated depreciation of property and equipment are as follows:

Activity for the Association for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being depreciated:				
Land and buildings	\$ 95,074	\$ -	\$ -	\$ 95,074
Water distribution system	10,337,082	-	-	10,337,082
Equipment	489,933	-	-	489,933
Totals, capital assets being depreciated	10,922,089	-	-	10,922,089
Less accumulated depreciation for:				
Capital assets	(4,151,505)	(275,555)	-	(4,427,060)
Total capital assets, net	\$ 6,770,584	\$ (275,555)	\$ -	\$ 6,495,029

Activity for the Association for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being depreciated:				
Land and buildings	\$ 95,074	\$ -	\$ -	\$ 95,074
Water distribution system	10,337,082	-	-	10,337,082
Equipment	467,619	22,314	-	489,933
Totals, capital assets being depreciated	10,899,775	22,314	-	10,922,089
Less accumulated depreciation for:				
Capital assets	(3,875,462)	(276,043)	-	(4,151,505)
Total capital assets, net	\$ 7,024,313	\$ (253,729)	\$ -	\$ 6,770,584

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

4) LONG-TERM DEBT

Long-term debt consisted of the following:

	2018	2017
Bond payable (See description below)	\$ 2,140,000	\$ 2,230,000
Note payable to a bank bearing interest at 2.00% per annum. Payable in monthly installments of \$764, including interest, through July 2020. The note is secured by equipment.	15,423	21,571
Total long-term debt	\$ 2,155,423	\$ 2,251,571

Bonds payable

2014 Series Revenue Refunding

On December 18, 2014, the Association issued bonds in the amount of \$2,380,000 in order to refinance USDA loans and the 2002 Revenue Bond issue. According to the bond agreement payments are required to be made by the 20th of every month into a bond reserve fund. The monthly payment is recomputed every year in order to fund the current bond maturities. Principal and interest payments are made every September 1 and interest only on March 1.

<u>Date</u>	<u>Principal</u>	<u>Date</u>	<u>Principal</u>	<u>Date</u>	<u>Principal</u>
09/01/15	60,000	09/01/22	100,000	09/01/29	125,000
09/01/16	90,000	09/01/23	100,000	09/01/30	130,000
09/01/17	90,000	09/01/24	100,000	09/01/31	140,000
09/01/18	90,000	09/01/25	105,000	09/01/32	145,000
09/01/19	95,000	09/01/26	120,000	09/01/33	145,000
09/01/20	95,000	09/01/27	120,000	09/01/34	150,000
09/01/21	100,000	09/01/28	125,000	09/01/35	155,000

The balance of bonds outstanding as of June 30, 2018 and 2017 was \$2,140,000 and \$2,230,000, respectively.

Changes in long-term debt are as follows for the year ended June 30, 2018:

	Balance		Increases	Decreases	Balance	Amounts	Amounts due
	6/30/2017				6/30/2018	due within	greater than
						one year	one year
Revenue bonds payable	\$ 2,230,000	\$ -	\$ (90,000)	\$ 2,140,000	\$ 90,000	\$ 2,050,000	
Notes payable	21,571	-	(6,148)	15,423	7,594	7,829	
Total non-current liabilities	\$ 2,251,571	\$ -	\$ (96,148)	\$ 2,155,423	\$ 97,594	\$ 2,057,829	

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Changes in long-term debt are as follows for the year ended June 30, 2017:

	Balance 6/30/2016	Increases	Decreases	Balance 6/30/2017	Amounts due within one year	Amounts due greater than one year
Revenue bonds payable	\$ 2,320,000	\$ -	\$ (90,000)	\$ 2,230,000	\$ 90,000	\$ 2,140,000
Notes payable	31,290	-	(9,719)	21,571	21,571	-
Total non-current liabilities	<u>\$ 2,351,290</u>	<u>\$ -</u>	<u>\$ (99,719)</u>	<u>\$ 2,251,571</u>	<u>\$ 111,571</u>	<u>\$ 2,140,000</u>

Maturities of long-term debt are as follows:

Year Ending June 30,	Principal	Interest
2019	\$ 97,594	\$ 71,013
2020	102,829	70,024
2021	95,000	66,806
2022	100,000	64,369
2023	100,000	61,619
2024 – 2028	545,000	259,554
2029 – 2033	665,000	153,782
2034 – 2038	450,000	27,400
	<u>\$ 2,155,423</u>	<u>\$ 774,567</u>

5) CHANGES IN NET POSITION

The changes in net position for the years ended June 30, 2018 and 2017 are as follows:

Changes in net position are as follows for the year ended June 30, 2018:

	Net In Capital			Total
	Assets	Unrestricted	Restricted	
Net Position at June 30, 2017	\$ 4,519,013	\$ 170,564	\$ 185,386	\$ 4,874,963
Profit	-	(135,393)	-	(135,393)
Transfers	(179,407)	180,936	(1,529)	-
Net Position at June 30, 2018	<u>\$ 4,339,606</u>	<u>\$ 216,107</u>	<u>\$ 183,857</u>	<u>\$ 4,739,570</u>

WEST STONE COUNTY WATER ASSOCIATION
PUBLIC WATER AUTHORITY OF THE STATE OF ARKANSAS
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018, AND 2017

Changes in net position are as follows for the year ended June 30, 2017:

	Net In Capital Assets	Unrestricted	Restricted	Total
Net Position at June 30, 2016	\$ 4,673,024	\$ 150,809	\$ 185,643	\$ 5,009,476
Profit		(134,513)		(134,513)
Transfers	(154,011)	154,268	(257)	-
Net Position at June 30, 2017	<u>\$ 4,519,013</u>	<u>\$ 170,564</u>	<u>\$ 185,386</u>	<u>\$ 4,874,963</u>

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
West Stone County Water Association, Public Water Authority, State of 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the West Stone County Water Association, Public Water Authority, State of Arkansas, as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the West Stone County Water Association, Public Water Authority, State of Arkansas's basic financial statements, and have issued our report thereon dated October 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the West Stone County Water Association, Public Water Authority, State of Arkansas'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 West Stone County Water Association, Public Water Authority, State of Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Stone County Water Association, Public Water Authority, State of Arkansas'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 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. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the West Stone County Water Association, Public Water Authority, State of Arkansas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
October 19, 2018