

**Midway Public Water Authority**

**FINANCIAL REPORT**

**December 31, 2017**

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**JACKSON, HOWELL & ASSOCIATES, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS/BUSINESS CONSULTANTS



**MEMBERS:**

JIMMY R. ADKINS, CPA  
DAVID L. JACKSON, CPA  
CYNTHIA C. ROBB, CPA  
KAREN D. HILL, CPA, CFE, CGFM  
MARK L. LAUBER, CPA

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
PRIVATE COMPANIES PRACTICE SECTION

**TENNESSEE**

7240 GOODLETT FARMS PARKWAY, SUITE 101  
CORDOVA, TENNESSEE 38016-4925  
(901) 683-5100 (O) / (901) 683-0562 (F)

**ARKANSAS**

301 EAST BROADWAY STREET  
WEST MEMPHIS, ARKANSAS 72301-3173  
(870) 735-2683 (O) / (870) 735-5871 (F)

E-MAIL: JHH@JHHCPA.COM

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Midway Public Water Authority  
Proctor, Arkansas

**Report on the Financial Statements**

We have audited the accompanying financial statements of Midway Public Water Authority (the Authority) which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

**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 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 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 Authority'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 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 Midway Public Water Authority as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter***Required Supplementary Information*

Management has omitted management's discussion and analysis information 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 the 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.

West Memphis, Arkansas  
September 26, 2018

*Jackson, Howell & Associates, PLLC*

**Midway Public Water Authority**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

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**ASSETS**

**CURRENT ASSETS**

Cash in bank	\$ 253,950
Accounts receivable - less allowance for doubtful accounts	38,946
Prepaid insurance	1,858
Restricted cash	<u>98,393</u>
<b>TOTAL CURRENT ASSETS</b>	<b>393,147</b>

**NON-CURRENT ASSETS**

Capital assets :

Land	\$ 10,850	
Office building	120,526	
Water system	2,036,073	
Equipment	<u>28,646</u>	
	2,196,095	
Less allowance for depreciation	<u>1,189,723</u>	
Net capital assets		1,006,372
Other assets		<u>1,800</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<b><u>1,008,172</u></b>
		<b><u>\$1,401,319</u></b>

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

## LIABILITIES AND NET POSITION

### **CURRENT LIABILITIES**

Accounts payable		\$ 13,268
Sales tax payable		2,148
Customers' meter deposits - restricted assets		34,775
Current portion of bonds payable		<u>17,451</u>
<b>TOTAL CURRENT LIABILITIES</b>		<b>67,642</b>

### **NON-CURRENT LIABILITIES**

Bonds payable less current maturities		<u>579,841</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b><u>579,841</u></b>

### **TOTAL LIABILITIES**

647,483

### **NET POSITION**

Net investment in capital assets	\$409,080	
Restricted	63,619	
Unrestricted	<u>281,137</u>	<u>753,836</u>

**\$1,401,319**

**Midway Public Water Authority**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**For the Year Ended December 31, 2017**

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<b>OPERATING REVENUE:</b>	
Water sales	\$252,079
<b>OPERATING EXPENSES:</b>	
Bad debt expense	7,000
Chemicals and supplies	3,537
Depreciation	50,702
Contracted services	102,745
Telephone and internet	2,088
Insurance	6,388
Maintenance and repairs	7,400
Other program expense	4,184
Miscellaneous	1,107
Office supplies and postage	10,793
Legal and audit	20,450
Utilities	13,056
Security	<u>1,276</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>230,726</u>
<b>OPERATING REVENUE</b>	21,353
<b>NON-OPERATING REVENUE (EXPENSE):</b>	
Interest income	72
Interest expense	<u>(29,881)</u>
<b>LOSS BEFORE CONTRIBUTIONS</b>	<u>(29,809)</u> (8,456)
Contributions by customers	<u>1,650</u>
<b>CHANGE IN NET POSITION</b>	<u>(6,806)</u>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>760,642</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$753,836</u>

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

**Midway Public Water Authority**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2017**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$236,376
Cash payments to suppliers	(65,671)
Cash payments to independent contractors	<u>(102,745)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>67,960</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Contributions in aid of construction	1,650
Interest received	<u>72</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,722</b>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Repayment of long-term debt	(16,627)
Acquisition of capital assets	(1,020)
Interest paid	<u>(29,881)</u>
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>(47,528)</u></b>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 <b>22,154</b>
 <b>CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH AT BEGINNING OF YEAR</b>	 <b><u>330,189</u></b>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	 <b><u>\$352,343</u></b>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 21,353
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Bad debt expense	7,000
Depreciation	50,702
(Increase) decrease in:	
Receivables	(19,549)
Increase (decrease) in:	
Accounts payable and accrued liabilities	5,275
Customer meter deposits	<u>3,179</u>
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	 <b><u>\$ 67,960</u></b>

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



**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Midway Public Water Authority (the Authority) provides rural water service to approximately 900 customers. The Authority was incorporated as a body politic and corporate and political subdivision of the State of Arkansas on January 14, 2004. Previous to that date the entity was Midway Water Association, Inc. (the Association). The Association was an Arkansas non-profit corporation and was exempt from income taxes under Section 501 (c)(12) of the Internal Revenue Code. On January 14, 2004 the Association ceased to exist and all its assets and liabilities accrued to the benefit of the Authority. The following is a summary of the Authority's significant accounting policies.

**Governmental Accounting Standards**

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board ("GASB") is the established and recognized standard-setting body for governmental accounting and financial reporting. The GASB periodically issues new or revised standards that are implemented by the Authority.

Pursuant to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, which were codified into a single source for governmental standards.

**Proprietary Fund**

The Public Water Authority's operations are accounted for as a proprietary fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis are to be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The Authority's financial statements are reported using the economic resource management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING  
POLICIES – CONTINUED**

**Fair Value of Financial Instruments**

The Authority's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The Authority's estimate of fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

**Cash**

The Authority considers all short-term investments with an original maturity of three months or less to be cash and cash equivalents.

**Restricted Cash**

Restricted cash represents customer deposits and cash restricted by the bond agreement.

**Accounts Receivable and Bad Debts**

Accounts receivable represents amounts due from customers under normal terms. The Authority uses the reserve method for expensing uncollectible accounts. A reserve of \$23,000 has been set up and is considered sufficient to provide for expected bad debts on an annual basis. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customers.

**Capital Assets**

Land, equipment, office building and water system additions and improvements which significantly extend the useful life of the existing utility plant are carried at cost. Maintenance and repair costs are expensed as incurred.

The Authority provides for depreciation of fixed assets based generally on the following methods and useful lives:

	<b><u>METHOD</u></b>	<b><u>LIFE</u></b>
Water System	Straight-line	35-40 years
Equipment	Straight-line	5-10 years
Office Building	Straight-line	15-35 years

**Contributions from Customers**

A fee of not less than \$550 was charged to new customers who were added to the system in 2017. This fee is non-refundable and covers the cost of installation, equipment and connection to the distribution system. The fee is recorded as a contribution to unrestricted net position.

**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE A - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING  
POLICIES - CONTINUED**

**Contributions from Customers - continued**

In the event that the cost of a new tap installation exceeds the significant value used to determine the capitalization of fixed assets, the new customer is required to pay to the Authority the amount of money that exceeds the average cost of installation. The entire cost of the tap installation is added to the existing water system. Any excess payments by a customer are credited to contributions from customer, since the customer has actually made a contribution of assets.

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources on the Authority's financial statements. The Authority had no deferred outflows of resources or deferred inflow of resources for the year ended December 31, 2017. Net position is classified in the following categories:

1. Net investment in capital assets - This amount consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of those assets.
2. Restricted - This amount is restricted by creditors, grantors, contributors, or laws or regulations of the government.
3. Unrestricted - This amount is the net position that does not meet the definition of "net investment of capital assets" or "restricted."

The Authority does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Authority management decides which resources (source of funds) to use at the time expenditures are incurred.

**Taxes Charged to Customers**

Revenues are recorded net of all amounts charged to customers for sales tax.

**Classification of Revenues and Expense**

As an enterprise (proprietary) fund, the Authority classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, non-operating revenue and non-operating expenses.

Operating revenues and expenses are deemed as revenues realized by the Authority in exchange for providing rural water service. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to debt costs.

**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events**

The Authority has evaluated events and transactions that occurred between December 31, 2017, and September 26, 2018, which is the date that financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**NOTE B - CASH IN BANK AND CONCENTRATION OF RISK**

The Authority maintains its deposits in a financial institution that at times exceeds amounts covered by the U.S. Federal Deposit Insurance Corporation (FDIC). The Authority has not experienced any losses in such accounts. Management believes the Authority is not exposed to any significant credit risk related to cash. At December 31, 2017, bank balances of \$91,883 were not insured.

**NOTE C - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017, was as follows:

	<b>Balance January 1, <u>2017</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Balance December 31, <u>2017</u></b>
Capital assets, not being depreciated				
Land	\$ 10,850	\$ -	\$ -	\$ 10,850
Capital assets, being depreciated				
Water system	2,035,053	1,020	-	2,036,073
Office building	120,526	-	-	120,526
Equipment	<u>28,646</u>	<u>-</u>	<u>-</u>	<u>28,646</u>
Total capital assets being depreciated	2,184,225	1,020	-	2,185,245
Less accumulated depreciation for:				
Water system	1,114,536	44,439	-	1,158,975
Office building	2,746	3,698	-	6,444
Equipment	<u>21,739</u>	<u>2,565</u>	<u>-</u>	<u>24,304</u>
Total accumulated depreciation	<u>1,139,021</u>	<u>50,702</u>	<u>-</u>	<u>1,189,723</u>

**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**NOTE C - CAPITAL ASSETS - CONTINUED**

	<b>Balance January 1, <u>2017</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b>Balance December 31, <u>2017</u></b>
Total capital assets being depreciated, net	<u>1,045,204</u>	<u>(49,682)</u>	-	<u>995,522</u>
Total capital assets, net	<u>\$1,056,054</u>	<u>\$(49,682)</u>	<u>\$ -</u>	<u>\$1,006,372</u>

**NOTE D - LONG-TERM DEBT**

**Arkansas Natural Resources Commission**

On September 13, 2007, the Authority accepted the terms of a bond agreement with the Arkansas Natural Resources Commission (ANRC) to borrow \$727,000 for the purpose of constructing a 150,000 gallon water storage tank and related improvements and facilities. Terms of the bond issue provide for an interest rate of 4.9% with semi-annual payments of \$23,254 due from December 31, 2008 to June 1, 2038. The bonds are secured by a lien on and pledge of the Authority's revenues.

Changes in long-term debt during the year ended December 31, 2017:

	<b>Balance December 31, <u>2016</u></b>	<b><u>Issued</u></b>	<b><u>Payments</u></b>	<b>Balance December 31, <u>2017</u></b>
Bond payable	\$613,919	\$ -	\$16,627	\$597,292

Future maturities of long-term debt as of December 31, 2017, are as follows:

<b><u>Year Ending</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2018	\$ 17,451	\$ 29,057	\$ 46,508
2019	18,316	28,192	46,508
2020	19,225	27,283	46,508
2021	20,178	26,330	46,508
2022	21,179	25,329	46,508
2023 - 2027	122,736	109,804	232,540
2028 - 2032	156,349	76,191	232,540
2033 - 2037	199,167	33,373	232,540
2038	<u>22,691</u>	<u>560</u>	<u>23,251</u>
	<u>\$597,292</u>	<u>\$356,119</u>	<u>\$953,411</u>

**Midway Public Water Authority**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

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**NOTE E - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to independent contractors and natural disasters, all of which is satisfactorily insured by general liability service. Commercial insurance policies are also obtained for other risks of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.