

***LOST BRIDGE VILLAGE WATER
AND SEWER DISTRICT***

GARFIELD, ARKANSAS

***BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
TOGETHER WITH REPORTS OF
INDEPENDENT AUDITOR
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016***

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**LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016**

The management of the Lost Bridge Water and Sewer District offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2017 and 2016.

BASIC FINANCIAL STATEMENTS

Our basic financial statements are prepared using proprietary fund (enterprise fund) accounting that uses the same basis of accounting as private-sector business enterprises. The District is operated under one enterprise fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, a statement of cash flows, and a reconciliation of operating loss to net cash provided by operating activities. These financial statements are followed by notes to the financial statements. In addition to the basic financial statements, this report also contains required supplementary information pertaining to budgetary reconciliations.

The statement of net position presents information on the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position reports the operating revenues and expenses and non-operating revenue and expenses of the District for the fiscal year. The difference, the net income or loss, is combined with any capital grants to determine the net changes in assets for the fiscal year. The net change, combined with the net position at the end of the previous year, total to the net position at the end of the current fiscal year.

The statement of cash flows reports cash and cash equivalent activities for the fiscal year resulting from the operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

CONDENSED FINANCIAL STATEMENT

Condensed financial information from the statement of net position and revenues, expenses and changes in net position for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 281,185	\$ 359,050
Capital assets, net	877,516	947,417
Total assets	<u>\$ 1,158,701</u>	<u>\$ 1,306,467</u>
Current liabilities	<u>\$ 107,709</u>	<u>\$ 80,779</u>
Total liabilities	<u>107,709</u>	<u>80,779</u>
Net assets		
Invested in capital assets, net of related debt	919,152	989,032
Unrestricted	<u>131,840</u>	<u>236,656</u>
Total net assets	<u>1,050,992</u>	<u>1,225,688</u>
Total liabilities and net assets	<u>\$ 1,158,701</u>	<u>\$ 1,306,467</u>
Operating revenues	<u>\$ 449,368</u>	<u>\$ 445,472</u>
Operating expenses	558,709	396,990
Depreciation	<u>69,901</u>	<u>73,508</u>
Total expenses	<u>628,610</u>	<u>470,498</u>
Operating profit	(179,242)	(25,026)
Non-operating revenue/expense	<u>4,546</u>	<u>5,135</u>
Profit (loss)	<u>(174,696)</u>	<u>(19,891)</u>
Beginning of year net assets	236,656	192,099
Transfer from/to capital asset fund	<u>69,880</u>	<u>64,448</u>
End of year net assets	<u>\$ 131,840</u>	<u>\$ 236,656</u>

The information contained in the condensed financial information table is used as a basis for the discussion presented on the following pages surrounding the District's activities for the fiscal year ended December 31, 2017 and 2016.

FINANCIAL HIGHLIGHTS

The District ended the year December 31, 2017, with a net position balance of \$1,050,992 of which \$919,152 represented the net amount invested in capital assets and \$131,840 was unrestricted. The ending net position amount was \$174,696 less than the net position balance at the beginning of the year. During 2017, the district suffered a decline in cash of \$68,628 in addition to depreciation charges.

The District has a loss of \$174,696 for the year ended December 31, 2017. This was \$154,805 more than the loss in 2016. Revenues were higher in 2017 by approximately \$4,000 while expenses were up by \$158,112, primarily due to a increase in engineering costs and operating costs for the plant.

The District ended the year December 31, 2017 with \$206,489 of cash and cash equivalents. Of this amount, \$79,136 was restricted as security deposits and a capital improvement fund and the balance was unrestricted.

FUTURE ACTIVITY

For 2018, the District will be receiving approximately \$90,000 of improvement district taxes. The district would like to continue the improvement district tax until there are enough funds to correct all deferred maintenance issues or until it is determined that a major replacement of the system components is needed. At that time, a bond issue would be considered. At this time, there is no timetable beyond 2018 for assessment of the improvement district taxes.

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lost Bridge Village Water
And Sewer District
Garfield, Arkansas

I have audited the accompanying basic financial statements of the **Lost Bridge Village Water and Sewer District** (an independent special district) as of December 31, 2017 and 2016 and for the years then ended. These basic financial statements are the responsibility of Lost Bridge Village Water and Sewer District's management. My responsibility is to express an opinion on these basic financial statements based on my audits.

Management's Responsibilities 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 statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my 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 I 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the basic financial statements referred to previously present fairly, in all material respects, the respective financial position of the Lost Bridge Village Water and Sewer District as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2018 on my consideration of the Lost Bridge Village Water and Sewer District's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audits.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages I-III be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, the other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Lost Bridge Village Water and Sewer District's financial statements. The required supplementary information other than Management Discussion and Analysis – the budgetary comparison information – Schedule of Revenue and Expenses – Budget (Non-GAAP Budgetary Basis) and Actual with Reconciliation to GAAP Basis – for the years ended December 31, 2017 and 2016, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the required supplementary information other than Management Discussion and Analysis – the budgetary comparison information – Schedule of Revenue and Expenses – Budget (Non-GAAP Budgetary Basis) and Actual with Reconciliation to GAAP Basis – for the years ended December 31, 2017 and 2016, is fairly stated in all material respects in relation to financial statements as a whole.



Timothy A. Bunch, CPA PA
October 31, 2018

**LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
GARFIELD, ARKANSAS
STATEMENTS OF NET POSITION
DECEMBER 31,**

Assets	2017	2016
Current assets		
Cash in bank	\$ 127,354	\$ 197,427
Accounts receivable	38,226	42,153
Inventory	36,469	41,780
Total current assets	202,049	281,360
Restricted assets		
Cash in bank	79,136	77,690
Total restricted assets	79,136	77,690
Property and equipment, at cost		
Water and sewer plants and systems	3,444,129	3,444,129
Machinery and equipment	189,344	189,344
	3,633,473	3,633,473
Less accumulated depreciation	2,755,957	2,686,056
Net property and equipment	877,516	947,417
Total assets	\$ 1,158,701	\$ 1,306,467
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 65,781	\$ 42,087
Sales tax payable	1,020	968
Payroll taxes payable	3,283	1,524
Customer meter deposits	37,625	36,200
Total current liabilities	107,709	80,779
Net position		
Invested in capital assets, net of related debt	919,152	989,032
Unrestricted	131,840	236,656
Total net position	1,050,992	1,225,688
Total liabilities and net position	\$ 1,158,701	\$ 1,306,467

See accompanying notes and independent auditor's report.

**LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
GARFIELD, ARKANSAS
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Water sales	\$ 184,175	\$ 182,967
Water tap-on fees	3,600	1,200
Sewer charges	161,608	163,226
Sewer tap-on fees	3,600	1,200
Penalties and interest	3,488	3,518
Collections fees	1,890	1,844
Improvement taxes	91,007	91,517
Total operating revenues	<u>449,368</u>	<u>445,472</u>
Operating expenses		
Salaries	57,700	43,917
Outside services	145,044	114,418
Two-ton water costs	95,092	79,194
Supplies	74,410	54,656
Maintenance	6,790	8,239
Utilities and telephone	45,694	39,963
Vehicle expense	11,967	9,319
Office expense	4,834	5,223
Insurance	17,512	12,753
Payroll taxes	6,406	4,128
Licenses and permits	245	1,845
Professional fees	6,400	6,647
Lab tests	8,413	6,455
Dues and subscriptions	2,938	5,594
Bank charges	1,828	2,380
Tap-on costs	0	2,175
Engineering costs	72,896	0
Penalties	540	0
Total operating expenses prior to depreciation	<u>558,709</u>	<u>396,906</u>
Depreciation expense	69,901	73,508
Total operating expenses	<u>628,610</u>	<u>470,414</u>
Operating profit (loss)	<u>(179,242)</u>	<u>(24,942)</u>
Non-operating revenues (expenses)		
Interest income	23	29
Other income	4,523	5,106
Interest expense	0	(84)
Net non-operating expenses	<u>4,546</u>	<u>5,051</u>
Increase (decrease) in net position	(174,696)	(19,891)
Net position - beginning of year	236,656	192,099
Transfer from (to) capital asset fund	69,880	64,448
Net position - end of year	<u>\$ 131,840</u>	<u>\$ 236,656</u>

See accompanying notes and independent auditor's report.

**LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
GARFIELD, ARKANSAS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from customers	\$ 464,554	\$ 456,102
Cash payments to suppliers and employees	<u>(533,204)</u>	<u>(417,420)</u>
Net cash (used) provided by operating activities	<u>(68,650)</u>	<u>38,682</u>
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	0	(26,891)
Principle paid on notes	<u>0</u>	<u>(6,134)</u>
Net cash (used) by capital and related financing activities	<u>0</u>	<u>(33,025)</u>
Cash flows from investing activities		
Interest earned on investments	<u>23</u>	<u>29</u>
Net cash provided by operating activities	<u>23</u>	<u>29</u>
Net (decrease) increase in cash and cash equivalents	<u>(68,627)</u>	<u>5,686</u>
Cash and cash equivalents at beginning of year	<u>275,117</u>	<u>269,431</u>
Cash and cash equivalents at end of year	<u>\$ 206,490</u>	<u>\$ 275,117</u>
Operating (deficit) profit	<u>\$ (174,719)</u>	<u>\$ (19,920)</u>
Reconciliation of operating profit to net cash provided by operating activities		
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation (non cash)	69,901	73,507
(Increase) decrease in accounts receivable	3,927	(3,992)
(Increase) decrease in inventory	5,311	8,197
Increase (decrease) in accounts payable, net of adjustments	23,694	(20,262)
Increase (decrease) in other accrued expenses	1,811	(168)
Increase (decrease) in customer deposits	<u>1,425</u>	<u>1,320</u>
Total adjustments	<u>106,069</u>	<u>58,602</u>
Net cash provided by operating activities	<u>\$ (68,650)</u>	<u>\$ 38,682</u>

See accompanying notes and independent auditor's report

**LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
GARFIELD, ARKANSAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

The Lost Bridge Village Water and Sewer District (the "District") was created by the County Court of Benton County, Arkansas for the purpose of constructing or purchasing water and sewage improvements, to include construction of a central sewage collection and treatment system, and construction of a central water system. District #1 was formed on October 5, 1973 and District #2 was formed on April 15, 1974. The districts operate jointly in their day to day operations.

REPORTING ENTITY

Lost Bridge Village Water and Sewer District is financially independent of all other units of government. It is responsible for financing its own activities and the payment of its own debt. The Board of Commissioners ("Board") has the responsibility to employ management that is responsible for the day-to-day operations of the District. The Board has absolute authority over all funds included in the entity. The district is not a component unit of any other governmental unit.

The District adheres to Statement of governmental Accounting Standards Board (GASB) Statement Number 14, "Financial Reporting Entity", as amended by GASB Statement Number 39, "Determining Whether Certain Organizations Are Component Units." These statements require the financial statements of the District (the primary government) to include its component units, if any. A component unit is a legally separate agency for which the primary government is financially accountable or organizations whose exclusion would cause the financial statements to be misleading because of the nature and significance of their relationship with the primary government. Financial accountability is determined by the primary government's ability to appoint the voting majority of the entity's board, impose its will on the organization, the existence of a financial benefit/burden relationship or fiscal dependency. Based on this criteria, there are no component units required to be included and there are no component units included in the district's financial statements.

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

The District adheres to the requirements of Governmental Accounting Standards Board Statement Number 34, "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments" (GASB 34). The government-wide financial statements along with the notes to the financial statements and the RSI, as noted below, comprise the basic financial statements.

The basic financial statements of the District are comprised of the following:

- The government-wide financial statements
- Notes to the financial statements
- Required supplementary information other than MD&A

GOVERNMENTAL-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Revenue, Expenses and Changes in Net Position) report information on all of the activities of the District and do not emphasize fund types. These business-type activities comprise the primary

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

government. Business-type activities rely on user fees and charges to support its activities rather than taxes and intergovernmental revenues. The purpose of the government-wide financial statements is to allow the user to be able to determine if the District is in a better or worse financial position than the prior year. The District uses only one fund.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange - like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement 33 "Accounting and Financial Reporting for Non-exchange Transactions."

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability in the government-wide financial statement, rather than as expenditures.

The Statement of Revenues, Expenditures and Changes in Net Position demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit for goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital improvements of a particular function.

Operating revenues are considered to be revenues generated by services performed and/or by fees charged such as water and sewer usage, connection, inspection fees and flow testing.

BUDGETARY INFORMATION

As required, the District uses only one fund to account for its activities and, therefore, it is considered a major fund. The District has elected to report budgetary comparison of its major fund as required supplementary information (RSI).

FUND ACCOUNTING

The district's financial practices are based upon fund accounting concepts. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and net assets (fund equity balances) and changes therein.

The accompanying financial statements reflect Business - Type Activities and are classified as a Single Proprietary Fund Type - Enterprise fund. This Fund accounts for the cost of services provided by the District as well as the revenues earned by the District.

BUSINESS - TYPE ACTIVITIES - PROPRIETARY FUND TYPE

Enterprise Fund - An enterprise fund is used to account for operations 1) that are 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 or services to the general public on a continuing basis be financed or recovered primarily through user charges; or

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets. Operation revenues and expenses result from providing water distribution as well as wastewater collection and treatment to members within the District's boundaries. Generally, other revenues and expenses are treated as non-operating revenues and expenses.

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

BASIS OF ACCOUNTING

The proprietary fund type is presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded in the period earned and expenses are recorded in the period the liability is incurred.

BUDGETARY PROCESS

The district operates under a fixed budget for control purposes. The budget and amendments, if any, are approved by the Board of Commissioners. The budget is prepared on a Non-GAAP accrual basis, whereby items such as capital expenditures and debt principal payments are budgeted as expenses.

The annual budget serves as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted. All budget amendments, which change the legally adopted total appropriation, are approved by the Board. Budget amendments can be either written or verbal.

The district follows these procedures in establishing budgetary data.

1. During the summer of each year, management submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing on January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is adopted by approval of the Board of Commissioners.
3. Budget amounts, as shown in the financial statements, are as originally adopted or as amended by the board of commissioners.
4. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except as reflected in the supplementary information and as noted above.
5. The level of control for appropriations is exercised at the fund level.
6. Appropriations lapse at year-end.

CASH

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments, including both unrestricted and restricted, with a maturity of three months or less, when purchased, to be a cash equivalent, in accordance with District policy.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE/ALLOWANCE FOR DOUBTFUL ACCOUNTS

Receivables include user fees for water and sewer services provided as part of the operations by the District. The accounts receivable are recorded net of the estimated allowance for doubtful accounts. The District operates using an allowance and collection policy that ultimately provides for discontinuance of water service due to nonpayment by the user. The policy also provides for application of the respective user's security deposit upon certain criteria. Additionally, the policy requires a user landlord to satisfy any outstanding user fees (tenant) prior to allowing services to a future tenant for that landlord.

At December 31, 2017 and 2016 the District also included \$9,395 and \$12,305, respectively, of accounts receivable due to delinquent collections on the newly imposed improvement tax.

At December 31, 2017 and 2016, \$2,693 was included in accounts receivable which was the balance due on lot sales during 2016. No payments were made during 2017 on the sales.

INVENTORY

Inventory consists of utility system parts and hardware supplies at year end. The inventories are valued at cost, which approximates market. The method used to determine the value of the inventory is the FIFO (first in-first out) method.

CAPITAL ASSETS AND DEPRECIATION

Capital assets acquired by proprietary funds are reported in those funds at historical cost or estimated historical cost if actual historical cost is not available.

Donated assets are reported at estimated fair market value at the time received. Certain infrastructure-type fixed assets consisting of certain improvements such as roads, curbs, gutters and lighting systems have not been capitalized, as the District does not generally incur such expenditures. However, the systems' distribution and collection lines and pumps are capitalized and depreciated as part of the overall system. Assets acquired with a cost or fair value of \$1,000 or more and a useful life of 1 year or more are capitalized. Maintenance, repairs and minor renovations are not capitalized. The acquisition of land and construction projects utilizing resources received from Federal and State agencies are capitalized when the related expenditure is incurred.

The capital assets are depreciated using the straight-line method of depreciation over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings/Plant and Plant Equipment	1-40
Capital Improvements, Distribution Lines	1-40
Furniture, Fixtures and Equipment	1-10
Vehicles	1-5

VACATION LEAVE AND OTHER COMPENSATED ABSENCES

Accumulated unpaid vacation pay is accrued when incurred in the proprietary fund. The method of accrual is in accordance with Statement of Governmental Accounting Standards Board Number

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16, "Accounting for Compensated Absences" (GASB 16). This standard provides for the measurement of accrued vacation leave and other compensated absences using the pay or salary rates in effect at the balance sheet date. It also requires additional accounts to be accrued for certain salary

related payments associated with the payment of compensated absences such as FICA and retirement benefits. Sick leave and personal time accrued is forfeited if not used prior to termination.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because at present it is not considered necessary to assure budgetary control or to facilitate effective cash planning and control.

INCOME TAXES

The District, as a governmental unit, is exempt from income taxes under current provisions of the Internal Revenue Code and Arkansas State Law.

FUND EQUITY

Grants, entitlements or shared revenues which are externally restricted for capital acquisition or construction are treated as contributed capital but recorded as revenue due to the District. Contributed or donated fixed assets are also treated as contributed capital but recorded as revenue when due the District.

USE OF ESTIMATES

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and 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 those estimates.

APPLICATION OF FASB PRONOUNCEMENTS TO PROPRIETARY FUNDS

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the District has elected not to apply those FASB Statements and Interpretations issued after November 30, 1989, that do not conflict GASB pronouncements. Only GASB pronouncements issued after this date will be adopted by the District.

RECLASSIFICATIONS

Certain amounts from prior years have been reclassified and restated to be consistent with current year presentation primarily the classification between unrestricted assets and the capital asset fund

NOTE 2 – CASH AND INVESTMENTS

At December 31, 2017 and 2016 cash and cash equivalents (including both restricted and unrestricted cash and cash equivalents) was \$206,490 and \$275,117 respectively, including unrestricted cash on hand of \$0 and \$0.

DEPOSITS

The District's deposit policy allows deposits to be held in demand deposits, savings accounts, certificates of deposit, direct obligations of the U.S. Treasury, Local Government Surplus Trust Funds, direct obligations of Federal agencies and instrumentalities and money market accounts.

	<u>Insured/ Collateralized</u>		<u>Bank Balance</u>		<u>Carrying Account</u>
December 31, 2017					
Unrestricted					
Depository accounts	\$ 7,384	\$	7,384	\$	7,384
Money Market					
Improvement tax funds	119,970		119,970		119,970
	<u>127,354</u>		<u>127,354</u>		<u>127,354</u>
Restricted					
Depository accounts	# 79,136		79,136		79,136
	<u>79,136</u>		<u>79,136</u>		<u>79,136</u>
	<u>\$ 206,490</u>	\$	<u>206,490</u>	\$	<u>206,490</u>
	<u>Insured/ Collateralized</u>		<u>Bank Balance</u>		<u>Carrying Account</u>
December 31, 2016					
Unrestricted					
Depository accounts	\$ 50,124	\$	50,124	\$	50,124
Money Market					
Improvement tax funds	147,303		147,303		147,303
	<u>197,427</u>		<u>197,427</u>		<u>197,427</u>
Restricted					
Depository accounts	77,690		77,690		77,690
	<u>77,690</u>		<u>77,690</u>		<u>77,690</u>
	<u>\$ 275,117</u>	\$	<u>275,117</u>	\$	<u>275,117</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

UNRESTRICTED AND RESTRICTED DEPOSITS

The District's deposits are categorized to give an indication of the level of risk assumed by the District at year-end. All deposits were fully insured by Federal Depository Insurance.

RESTRICTED DEPOSITS

Restricted deposits consisted solely of customer deposits for water and sewer services and of funds allocated to a capital improvement fund, with those funds to be used strictly for fixed asset purchases in the future.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Customer receivables (Imp Dist Tax)	\$ 9,395	\$ 12,305
Customer receivables (water/sewer)	26,138	27,155
Balance due on lots sales	2,693	2,693
Less allowance for doubtful accounts	0	0
Net receivables	<u>\$ 38,226</u>	<u>\$ 42,153</u>

NOTE 4 – CAPITAL ASSET ACTIVITY

The following is a summary of changes in capital asset activity for the year ended December 31, 2017 and 2016:

	<u>Balance January 01 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31 2017</u>
Water and sewer plants and systems	\$ 3,444,129	0	0	\$ 3,444,129
Machinery and equipment	189,344	0	0	189,344
Less accumulated depreciation	2,686,056	69,901	0	2,755,957
Capital assets, net	<u>\$ 947,417</u>	(69,901)	\$	<u>877,516</u>
Related debt	0	0	0	0
Restricted cash	41,615	21	0	41,636
Net assets invested in capital assets, net of related debt	<u>\$ 989,032</u>			<u>\$ 919,152</u>

NOTE 4 – CAPITAL ASSET ACTIVITY (CONTINUED)

	Balance January 01 2016	Additions	Retirements	Balance December 31 2016
Water and sewer plants and systems	\$ 3,417,237	26,892	0	\$ 3,444,129
Machinery and equipment	189,344	0	0	189,344
Less accumulated depreciation	2,612,548	73,508	0	2,686,056
Capital assets, net	\$ 994,033	(46,616)	0	\$ 947,417
Related debt	6,135	0	6,135	0
Restricted cash	65,581	0	23,966	41,615
Net assets invested in capital assets, net of related debt	\$ 1,053,479			\$ 989,032

NOTE 5 – RISK MANAGEMENT

The district is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters.

Insurance programs for general/professional liability, automobile, and property are through commercial insurance. The District retains the risk of loss, on insured claims, up to a deductible amount (ranging from \$500 to \$1,000) with the risk of loss in excess of this amount transferred to the insurance carrier. Limits of general liability are \$1,000,000 per occurrence and \$2,000,000 in the aggregate.

NOTE 6 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 31, 2018, which is the date the financial statements were available for issue.

LOST BRIDGE VILLAGE WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET
(NON GAAP BUDGETARY BASIS) AND ACTUAL WITH RECONCILIATION
TO GAAP BASIS
FOR THE YEAR ENDED DECEMBER 31,

	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues			
Water sales	\$ 183,754	\$ 184,175	\$ (421)
Water tap-on fees	0	3,600	(3,600)
Sewer charges	160,371	161,608	(1,237)
Sewer tap-on fees	0	3,600	(3,600)
Penalties and interest	3,374	3,488	(114)
Collections fees	1,852	1,890	(38)
Improvement taxes	91,923	91,007	916
Total operating revenues	<u>441,274</u>	<u>449,368</u>	<u>(8,094)</u>
Operating expenses			
Salaries	43,000	57,700	(14,700)
Outside services	103,596	145,044	(41,448)
Two-lon water costs	79,237	95,092	(15,855)
Supplies	0	74,410	(74,410)
Maintenance	22,238	6,790	15,448
Utilities and telephone	39,844	45,694	(5,850)
Vehicle expense	9,359	11,697	(2,338)
Office expense	5,424	4,834	590
Insurance	18,811	17,512	1,299
Payroll taxes	4,063	6,406	(2,343)
Licenses and permits	3,048	245	2,803
Professional fees	7,134	6,400	734
Lab tests	6,445	8,413	(1,968)
Dues and subscriptions	3,896	2,938	958
Bank charges	2,026	1,828	198
Travel	0	540	(540)
Engineering costs	14,400	72,896	(58,496)
Total operating expenses	<u>362,521</u>	<u>558,439</u>	<u>(195,918)</u>
Operating profit (loss)	<u>78,753</u>	<u>(109,071)</u>	<u>187,824</u>
Non-operating revenues (expenses)			
Interest income	30	23	7
Other income	0	4,523	(4,523)
Interest expense	0	0	0
Capital expenditures	0	0	0
Principal retirement - notes	0	0	0
Net non-operating expenses	<u>30</u>	<u>4,546</u>	<u>(4,516)</u>
Increase (decrease) in net assets	<u>\$ 78,783</u>	<u>\$ (104,525)</u>	<u>\$ 183,308</u>
Reconciliation			
Net profit (loss) (non-GAAP budgetary basis)			\$ (104,795)
Capital outlay			0
Principal retirement on notes			0
Depreciation charge to equity			(69,901)
Decrease in net assets (GAAP basis)			(174,696)
Net assets - beginning of the year			1,225,688
Net assets - end of the year			<u>\$ 1,050,992</u>

	<u>2016</u> <u>Budget</u>	<u>2016</u> <u>Actual</u>	<u>2016</u> <u>Variance</u>
Operating revenues			
Water sales	\$ 178,323	\$ 182,967	\$ (4,644)
Water tap-on fees	0	1,200	(1,200)
Sewer charges	157,436	163,226	(5,790)
Sewer tap-on fees	0	1,200	(1,200)
Penalties and interest	2,191	3,518	(1,327)
Collections fees	1,629	1,844	(215)
Improvement taxes	99,984	91,517	8,467
Total operating revenues	<u>439,563</u>	<u>445,472</u>	<u>(5,909)</u>
Operating expenses			
Salaries	42,000	43,917	(1,917)
Outside services	171,996	114,418	57,578
Two-ton water costs	72,298	79,194	(6,896)
Supplies	0	54,656	(54,656)
Maintenance	6,030	8,239	(2,209)
Utilities and telephone	44,833	39,963	4,870
Vehicle expense	6,949	9,319	(2,370)
Office expense	5,109	5,223	(114)
Insurance	14,297	12,753	1,544
Payroll taxes	4,087	4,128	(41)
Licenses and permits	3,563	1,845	1,718
Professional fees	9,272	6,647	2,625
Lab tests	6,300	6,455	(155)
Dues and subscriptions	2,966	5,594	(2,628)
Bank charges	2,399	2,380	19
Tap-on costs	943	2,175	(1,232)
Engineering costs	24,000	0	24,000
Total operating expenses	<u>417,042</u>	<u>396,906</u>	<u>20,136</u>
Operating profit (loss)	<u>22,521</u>	<u>48,566</u>	<u>(26,045)</u>
Non-operating revenues (expenses)			
Interest income	30	29	1
Other income	0	5,106	(5,106)
Interest expense	(81)	(84)	3
Capital expenditures	0	(26,892)	26,892
Principal retirement - notes	(6,138)	(6,135)	(3)
Net non-operating expenses	<u>(6,189)</u>	<u>(27,976)</u>	<u>21,787</u>
Increase (decrease) in net assets	<u>\$ 16,332</u>	<u>\$ 20,590</u>	<u>\$ (4,258)</u>
Reconciliation			
Net profit (loss) (non-GAAP budgetary basis)			\$ 20,590
Capital outlay			26,892
Principal retirement on notes			6,135
Depreciation charge to equity			(73,507)
Increase in net assets (GAAP basis)			<u>(19,890)</u>
Net assets - beginning of the year			<u>1,245,578</u>
Net assets - end of the year			<u>\$ 1,225,688</u>

See accompanying notes and independent auditor's reports.

***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***

Board of Commissioners
Lost Bridge Village Water
And Sewer District
12133 E. Airport Drive
Garfield, Arkansas 72732

I have audited the financial statements of Lost Bridge Village Water and Sewer District as of and for the year ended December 31, 2016 and 2015, and have issued my report thereon dated October 31, 2018. I conducted my 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 of America.

Internal Control Over Financial Reporting

Management of Lost Bridge Village Water and Sewer District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Lost Bridge Village Water and Sewer District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness for Lost Bridge Village Water and Sewer District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Lost Bridge Village Water and Sewer District's internal control over financial reporting.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected and corrected on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

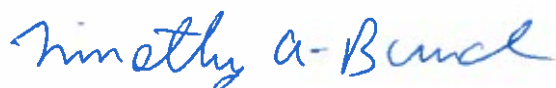
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiency in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lost Bridge Village Water and Sewer District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance 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 my 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.



Timothy A. Bunch, CPA PA
October 31, 2018