

LITTLE CREEK WATER ASSOCIATION, INC
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

LITTLE CREEK WATER ASSOCIATION, INC
DECEMBER 31, 2017

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Statement of Financial Position	3-4
Statement of Activities	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-12
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14
Schedule of Findings and Responses	15

SEARCY & ASSOCIATES, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Little Creek Water Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Little Creek Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, changes in net assets, 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Little Creek Water Association, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2018, on our consideration of Little Creek Water Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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 Little Creek Water Association Inc.'s internal control over financial reporting and compliance.

Searcy & Associates, LLC

Monticello, Arkansas

August 17, 2018

LITTLE CREEK WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 147,107
Inventory	1,475
Accounts Receivable	<u>83,989</u>
Total Current Assets	232,571

Restricted Assets

Meter Deposit Fund	50,478
Debt Service	216,035
System Maintenance	<u>67,695</u>
Total Restricted Assets	334,208

Water Plant and Equipment

Land	12,074
Distribution System & Improvements	2,727,579
Water Plant	925,312
Furniture & Fixtures	<u>103,666</u>
Total Water Plant and Equipment	3,768,631
Less: Accumulated Depreciation	<u>(1,720,004)</u>
Total Water Plant and Equipment	<u>2,048,627</u>
Total Assets	<u>\$ 2,615,406</u>

The notes are an integral part of the financial statements.

LITTLE CREEK WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 709
Sales Tax Payable	2,787
Accrued Payroll Liabilities	832
Accrued Interest	5,558
Current Portion of Long Term Debt	<u>57,101</u>
Total Current Liabilities	66,987
Other Liabilities	
Customer Deposits	49,848
Long Term Debt, Less Current Portion	<u>1,497,556</u>
Total Liabilities	1,614,391
Net Assets	
Unrestricted	717,285
Temporarily Restricted	
Depreciation Fund	67,695
Debt Service Fund	<u>216,035</u>
Total Net Assets	<u>1,001,015</u>
Total Liabilities and Net Assets	<u>\$ 2,615,406</u>

The notes are an integral part of the financial statements.

LITTLE CREEK WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Operating Revenues	
Water Sales	\$ 430,752
Service Charges	13,400
Penalties	7,425
Miscellaneous	2,422
Permits, Inspections, and other Fees	<u>8,803</u>
Total Operating Revenue	\$ 462,802
Net Assets Released from Restrictions	30,000
Operating Expenses	
Salaries	\$ 104,533
Fringe Benefits	7,427
Plant Expense	61,197
Insurance	13,475
Shop Expense	21,190
Office Expense	20,548
Repairs and Maintenance	12,592
Dues and Fees	4,174
Depreciation	93,344
Professional Fees	7,250
Miscellaneous	<u>1,936</u>
Total Operating Expenses	<u>347,666</u>
INCOME FROM OPERATIONS	145,136
OTHER INCOME/(EXPENSE)	
Interest Income	572
Interest Expense	(80,342)
Gain on Sale	2,527
Transfer to Restricted Assets	<u>(18,847)</u>
Total Other Income/(Expense)	(96,090)
INCREASE/(DECREASE) IN UNRESTRICTED NET ASSETS	67,893
INCREASE/(DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	
Well Pump Repair	(30,000)
Operating Transfers	<u>18,847</u>
	(11,153)
NET INCREASE/(DECREASE) IN NET ASSETS	\$ 37,893
Net Assets, Beginning of Year	<u>963,122</u>
Net Assets, End of Year	<u>\$1,001,015</u>

The notes are an integral part of the financial statements.

LITTLE CREEK WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 416,705
Cash Paid to Suppliers and Employees	(252,378)
Interest Received	<u>572</u>
Cash Provided/(Used) by Operating Activities	164,899
Cash Flows from Investing Activities	
Proceeds from Sale of Equipment	4,000
Transfer from Restricted Cash	30,000
Transfer to Restricted Cash	<u>(18,847)</u>
Cash Provided/(Used) by Investing Activities	15,153
Cash Flows from Capital and Related Financing Activities	
Debt Repayment	(60,241)
Interest Payment on Notes Payable	<u>(80,342)</u>
Cash Provided/(Used) by Financing Activities	(140,583)
Increase/(Decrease) in Cash and Cash Equivalents	39,469
Cash and Cash Equivalents - Beginning of Year	<u>107,638</u>
Cash and Cash Equivalents - End of Year	<u>\$ 147,107</u>
Reconciliation of Net Savings to Cash	
Provided/(Used) by Operating Activities	
Net Increase/(Decrease) in Net Assets	\$ 37,893
Items not Requiring Cash	
Depreciation	93,344
Gain on Sale	(2,527)
Interest Expense	80,342
Changes in:	
Accounts Receivable	(17,113)
Accounts Payable	(24,450)
Accrued Expenses	(4,737)
Meter Deposits	<u>2,147</u>
Cash Provided/(Used) by Operating Activities	<u>\$ 164,899</u>

The notes are an integral part of the financial statements.

LITTLE CREEK WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Little Creek Water Association, Inc. (the "Association") was organized in 1971, to supply water to the Little Creek community located just outside of Sheridan, Arkansas in Grant County. The Association's primary source of revenue is from the sale of water to the community, including related service charges and connection fees.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue and expenses when they are incurred. Accordingly, they reflect all significant receivables, payables, and other prepaid assets and liabilities regardless of whether their asset or expense has been paid for or whether revenue or income has been received.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) under Accounting Standards Codified (ASC) 958-205-45. Under this standard the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Inventories

Inventories consist of pipe, meters, coupling, etc. and are recorded at cost using the first-in, first-out method.

Property, Plant & Equipment

Fixed assets recorded at cost are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives are:

	<u>Years</u>
Distribution System/System Expansion	40
Building and Improvements	10-20
Furniture and Fixtures	8
Machinery and Equipment	5-8
Water Plant	40

Replacements, maintenance, and repairs which do not improve or extend the lives of related assets are expenses currently.

Management reviews the carrying value of long-lived assets for impairment when and if circumstances indicate that the remaining carrying value may not be recoverable. There are no such assets recorded on the financial statements presented.

LITTLE CREEK WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

The Association provides water to approximately 930 customers in its geographical area. The accounts receivable is from sales to these customers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. These estimates represent management's evaluations of information available as of the date the financial statements were prepared and are subject to varying degrees of reliability. Accordingly, actual results could, and probably will, differ from the estimates reflected in these financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include all cash in banks and highly liquid investments with original maturity dates of less than three months.

Accounts Receivable

The Association sells water to its customers who are required to make payment after receipt of the monthly statement. As a result, the financial statements reflect the amount of accounts receivable due from the customers for water delivered for the prior month as well as amounts for previous months that are past due. The terms of the receivables are customary in the industry. A deposit is collected for all new customers that is used to offset any delinquent billing or returned to the customer when the account is closed.

An allowance for doubtful accounts receivable is not maintained. Bad debts are charged to operations as they are deemed uncollectible, which is not materially different from results which would be obtained using the reserve method.

Fair Value of Financial Investments

The investments of the Association consist solely of bank certificates of deposit. Because of the relative short maturities and ability to convert these deposits into cash without incurring significant penalties, the cost basis of these investments is considered to approximate the fair value.

Tax Status

The Association is exempt under Internal Revenue Code Section 501(c)(12) and the applicable income tax regulations of the State of Arkansas on income other than income derived from activities unrelated to its exempt purpose. The Association had no unrelated business income and as a result there is no provision for income taxes for the years ended December 31, 2017. The Association's Department of Treasury information returns are subject to examination generally for three years after their filing date.

LITTLE CREEK WATER ASSOCIATION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sales Tax

Revenue reported from the sale of water is reported net of sales taxes of \$33,696 for the year ended December 31, 2017.

Subsequent Events

Management has evaluated subsequent events through August 17, 2018, the date the financial statements were available to be issued.

NOTE 2: DETAIL ON CASH DEPOSITED IN COMMERCIAL BANKS

The following items present detailed information to support the amounts reported in the basic financial for cash deposits.

2a. Cash and Certificates of Deposit

Deposits

The table presented below is designed to disclose the level of custody credit risk assumed by the Association based upon how its deposits were insured or secured with collateral at December 31, 2017.

Category 1 - Insured by FDIC or collateralized with securities held by the Association (or public trust) or by its agent in its name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Association's name.

Category 3 - Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent by in the Association's name; or collateralized with no written or approved collateralized agreement.

<u>Cash Deposits</u>	<u>Total</u>	<u>Cat 1. Custody</u>	<u>Cat 2. Custody</u>	<u>Cat 3. Custody</u>
December 31, 2017				
Bank 1	\$481,009	\$250,000	\$0	\$231,009

NOTE 3: EMPLOYEE BENEFIT PLAN

The Association has adopted an employee benefit plan. The plan is in the form of a SIMPLE IRA plan and is provided to the only employee of the Association. The employee may make contributions to the plan through salary reductions up to the amount allowed by law. The Association may make matching contributions of up to 3% of the employee's annual compensation. For the year ended December 31, 2017, matching contribution was \$678.

LITTLE CREEK WATER ASSOCIATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 4: DEBT - ARKANSAS NATURAL RESOURCES

The Association has two notes to Arkansas Natural Resources Commission for the construction of the original water plant. There is a note for \$1,425,000 at 6.75% interest rate, and a note for \$125,000 at 4.450% interest rate. Little Creek Water Association's share of such notes is \$355,813 and \$9,027, although it is jointly and separately liable for 100%. Semi-annual payments of principal and interest are due of \$27,847.50 and \$2,380.62 respectfully on these notes. The balances at December 31, 2017 were \$729,680 and \$18,054.

A schedule of principal maturities is as follows:

2018	\$32,212
2019	34,423
2020	36,786
2021	39,311
2022	42,009
Thereafter	180,099

Each is also secured by real and personal property and accounts receivable of the Association.

NOTE 5: USDA RURAL DEVELOPMENT

The Association has four notes to USDA Rural Development for system infrastructure:

Loan payable in monthly principal and interest of \$4,663, interest at 4.625%, secured by new water distribution system, maturing in December, 2042.	\$ 822,381
Loan payable in monthly principal and interest of \$1,293, interest at 4.125%, secured by new water distribution system, maturing in June, 2045.	254,646
Loan payable in monthly principal and interest of \$319, interest at 4.625% secured by new water distribution system, maturing in December, 2042.	55,494
Loan payable in monthly principal and interest of \$402, interest at 4.375%, secured by new water distribution system, maturing in December, 2034.	<u>57,297</u>
	<u>\$1,189,817</u>

LITTLE CREEK WATER ASSOCIATION, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2017

NOTE 5: USDA RURAL DEVELOPMENT (CONTINUED)

A schedule of principal maturities are as follows:

2018	\$25,423
2019	26,594
2020	27,820
2021	29,102
2022	30,444
Thereafter	1,050,434

These notes carry certain restrictive covenants, which the Association has complied with during 2017. Each is also secured by the system project.

NOTE 6: RESTRICTED ASSETS

In accordance with the conditions set forth in the bond indenture as required by the Commission, the Association is required to accumulate and maintain certain account balances as follows:

- A debt service reserve account is to accumulate from deposits by the Association at a rate of \$475 per month until the fund balance equals or exceeds \$57,000. This reserve is solely for the benefit and protection of the Commission and shall not be used or pledged for any other purpose without prior written approval of the Commission.
- Debt service reserves are also required by the terms of the loans from the United States Department of Agriculture, Rural Utilities Service, as follows:
 - Debt service reserve of \$56,040 to be accumulated over a period of ten years at a rate of \$467 per month beginning December 7, 2004.
 - Debt service reserve of \$3,840 to be accumulated over a period of ten years at the rate of \$467 per month beginning December 7, 2004.
 - Debt service reserve of \$15,600 to be accumulated over a period of ten years at the rate of \$130 per month beginning September 28, 2006.
 - Debt service reserve of \$4,920 to be accumulated over a period of ten years at the rate of \$41 per month beginning February 20, 2007.
- A depreciation reserve account is to accumulate from deposits by the Association at a rate of \$348 per month until the fund balance equals or exceeds \$350,000. This reserve is for the replacement of the new water plant project and shall not be used for any other purpose without prior written approval of the Commission.

In addition to these restricted funds, the Association also maintains certain other funds that are restricted under the terms of the loan agreements or in accordance with the fiduciary responsibilities of the Association as follows:

Meter deposit - Checking account - restricted portion \$50,478

LITTLE CREEK WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 7: OPERATING LEASE

The Association leases space from the South Sheridan Water Company on a month to month basis at \$400 per month. The Association is allocated its share of plant operating payrolls and expenses, parts and other common operating costs, and the cost of equipment based upon its share of water usage compared to total water usage for the two water departments. The Association's allocation is currently 40% of all costs.

NOTE 8: COMPENSATED ABSENCES

The Association provides employee benefits in the form of paid vacation, sick leave, and personal days off, depending on job classification, length of service, and other factors. The amount of accrued paid time off has not been computed by management but, because of the small work force and other factors, it is not materially significant. The Association's policy is to recognize the cost of such paid time off when actually paid to its employees.

SEARCY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Little Creek Water Association, Inc.
Sheridan, 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 Little Creek Water Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Little Creek Water Association Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Little Creek Water Association, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Little Creek Water Association Inc.'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2017-1

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Little Creek Water Association, Inc.'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*.

Little Creek Water Association Inc.'s Response to Findings

Little Creek Water Association Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Little Creek Water Association Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Searcy & Associates, LLC
Monticello, Arkansas
August 17, 2018

LITTLE CREEK WATER ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

SIGNIFICANT DEFICIENCIES

2017-1 Segregation of Duties

Condition: The Little Creek Water Association did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

Criteria: Proper segregation of controls should be in place to provide reasonable assurance that fraud or error does not occur.

Cause: The System has limited financial resources which prevent it from fully segregated financial accounting duties.

Effect: Without proper segregation of duties, opportunity for fraud or error exists.

Recommendation: The System should evaluate its internal controls and segregate financial duties to the extent possible with the current staffing levels. The System should consider additional oversight where segregation is not possible.

Views of Responsible Officials: The System will segregate financial duties to the extent possible with the current staffing levels.