Mt. Sherman Water Association, Inc.

Jasper, Arkansas

Financial Statements

December 31, 2019 and 2018

MT. SHERMAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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THE
KILLINGSWORTH FIRM
CPA • PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Mt. Sherman Water Association, Inc.
Jasper, Arkansas

Management is responsible for the accompanying financial statements of Mt. Sherman Water Association, Inc. (a not-for-profit corporation), which comprise the statements of assets, liabilities, and net assets—modified cash basis as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net assets—modified cash basis and cash flows—modified cash basis for the years then ended, and the related notes to the financial statements in accordance with the modified cash basis of accounting. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements, nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The Killingsworth Firm CPA, PLLC
The Killingsworth Firm CPA, PLLC

Berryville, Arkansas
April 9, 2021

P.O. Box 608
414 North Springfield Street
Berryville AR 72616

TEL: (870) 423-3135
FAX: (870) 423-7485
www.killingsworthfirm.com

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Current Assets		
Cash and Cash Equivalents	$ 17,914	$ 28,365
Total Current Assets	**17,914**	**28,365**
Investments	**38,375**	**35,403**
Restricted Assets		
Meter Deposits	13,165	13,340
Debt	1,002	117,610
Depreciation Account	20,919	12,012
Certificates of Deposit	165,010	154,433
Total Restricted Assets	**200,096**	**297,395**
Property and Equipment, at Cost		
Water Systems	563,014	322,229
Construction in Progress	-	136,587
Accumulated Depreciation	(274,006)	(257,924)
Net Property and Equipment	**289,008**	**200,892**
Total Assets	**$ 545,393**	**$ 562,055**

LIABILITIES AND NET ASSETS

	2019	2018
Current Liabilities		
Current Portion of Long-term Debt	$ 17,510	$ 17,041
Total Current Liabilities	**17,510**	**17,041**
Liabilities Payable from Restricted Assets		
Customer Meter Deposits	13,715	14,288
Total Liabilities Payable from Restricted Assets	**13,715**	**14,288**
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	158,131	176,084
	158,131	**176,084**
Total Liabilities	**189,356**	**207,413**
Net Assets		
Restricted	186,381	271,095
Unrestricted	169,656	83,547
Total Net Assets	**356,037**	**354,642**
Total Liabilities and Net Assets	**$ 545,393**	**$ 562,055**

See Independent Accountant's Report and Notes to Financial Statements.

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating Revenues		
Water Revenue	$ 183,292	$ 191,278
Total Operating Revenues	**183,292**	**191,278**
Operating Expenses		
Water Purchases	70,038	66,177
Salaries	36,055	36,553
Utilities	3,342	3,370
Repairs and Maintenance	24,557	59,249
Advertising	-	437
Insurance	879	1,163
Office Expenses	4,154	4,762
Depreciation	16,082	8,056
Sales Tax	11,292	12,425
Volunteer Fire Department Fees	7,814	6,736
PWS Service Fees	1,481	1,134
Miscellaneous	990	100
Professional Fees	7,383	3,742
Total Operating Expenses	**184,067**	**203,904**
Operating Income (Loss)	**(775)**	**(12,626)**
Other Income (Expense)		
Grant Revenue	-	64,375
Interest Income	5,981	2,251
Other Income	1,500	-
Interest Expense	(5,311)	-
Loan Fees	-	(7,500)
Total Other Income (Expense)	**2,170**	**59,126**
Net Increase (Decrease) In Net Assets	**1,395**	**46,500**
Net Assets, Beginning of Year	**354,642**	**308,142**
Net Assets, End of Year	**$ 356,037**	**$ 354,642**

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Cash Receipts:		
Customer Payments Received	$ 183,292	$ 191,278
Grant Revenue	-	64,375
Other Income	1,500	-
Interest Income	5,981	2,251
Cash Paid For:	-	
Water Purchases	(70,038)	(66,177)
Salaries	(36,055)	(36,553)
Utilities	(3,342)	(3,370)
Repairs and Maintenance	(24,557)	(59,249)
Advertising	-	(437)
Insurance	(879)	(1,163)
Office Expenses	(4,154)	(4,762)
Sales Tax	(11,292)	(12,425)
Volumteer Fire Department Fees	(7,814)	(6,736)
PWS Service Fees	(1,481)	(1,134)
Miscellaneous	(990)	(100)
Professional Fees	(7,383)	(3,742)
Interest Expense	(5,311)	-
Loan Fees	-	(7,500)
Net Cash Provided By (Used In) Operating Activities	**17,477**	**54,556**
Cash Flows from Investing Activities		
Transfers (to) from Investments	(2,972)	(11,164)
Transfers (to) from Restricted Accounts	97,299	(117,224)
Purchases of Fixed Assets	(104,198)	(136,587)
Decrease in Customer Meter Deposits	(573)	(2)
Net Cash Provided By (Used In) Investing Activities	**(10,444)**	**(264,977)**
Cash Flows from Financing Activities		
Proceeds from Long-Term Debt	-	193,125
Payments on Long-Term Debt	(17,484)	-
Net Cash Provided By (Used In) Financing Activities	**(17,484)**	**193,125**
Net Increase (Decrease) in Cash and Cash Equivalents	**(10,451)**	**(17,296)**
Cash and Cash Equivalents, Beginning of Year	**28,365**	**45,661**
Cash and Cash Equivalents, End of Year	**$ 17,914**	**$ 28,365**

SUPPLEMENTAL DISCLOSURES

	2019	2018
Cash Paid for Interest	**$ 5,311**	**$ -**

See Independent Accountant's Report and Notes to Financial Statements.

MT. SHERMAN WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mt. Sherman Water Association, Inc. (the Association), incorporated on February 2, 1981, was formed for the purpose of constructing, maintaining, and operating a private water system in Newton County, Arkansas. The Association is governed by a Board of Directors that is elected annually for a three or five year term by the membership of the Association.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis, consequently, revenues are recognized when received rather than when earned, and expenses are recognized when cash is disbursed rather than when the obligation is incurred.

Cash Equivalents

The Association considers all non-restricted highly liquid debt and equity instruments with maturity dates of three months or less to be cash equivalents.

Restricted Cash

Amounts shown as restricted assets have been restricted by either bond indenture, by law, by contractual obligations, by ordinance designation, or by board action to be used for specific purposes, such as servicing bond debt or construction of capital assets.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend useful lives are not capitalized, but charged to expense as incurred. Major replacements and improvements are capitalized.

Revenue Recognition

Revenues are recognized when received rather than when earned. Water revenues are billed to the customers in monthly cycles.

MT. SHERMAN WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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

Advertising

The Association follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2019 and 2018 was $0 and $437, respectively.

Income Taxes

The Association is organized as a not-for-profit corporation under Arkansas state laws and is recognized by the IRS as a governmental entity exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2018	Additions/ Provisions	Transfers/ Retirements	2019
Water Systems	$ 322,229	$ 240,785	$ ---	$ 563,014
Construction in Progress	136,587	---	(136,587)	---
Accumulated Depreciation	(257,924)	(16,082)	---	(274,006)
Net Property and Equipment	$ 200,892	$ 224,703	$(136,587)	$ 289,008

Depreciation expense was $16,082 and $8,056 for the years ended December 31, 2019 and 2018, respectively.

NOTE 3 – LONG-TERM DEBT

Long-Term Debt consisted of the following:

	2018	Additions	Principal Payments	2019
AR Natural Resources Commission Loan, Original amount $193,125; Annual installments of $22,352, Including interest at 2.75%, Through 2028	$ 193,125	$ ---	$ 17,484	$ 175,641

Maturities of long-term debt for the years ending December 31, are as follows:

	Principle
2020	$ 17,510
2021	17,991
2022	18,486
2023	18,994
2024	19,517
2025	20,053
2026	20,605
2027	21,171
2028	21,314
Total Long-Term Debt	$ 175,641

Interest expense for the years ended December 31, 2019 and 2018 totaled $ 5,311 and $0, respectively.

NOTE 4 – CONCENTRATIONS AND ECONOMIC DEPENDENCY

The Association's business activities are concentrated with approximately three hundred customers located in Newton County, Arkansas. Although the regional economy is diversified, all future revenues are dependent upon the economic health of this geographic region.

The Association is currently dependent upon one water source and charges for water represent approximately 38% of its operating revenues.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 9, 2021, the date on which the financial statements were available to be issued.