Mt. Sherman Water Association, Inc.
Mt. Sherman, Arkansas

Agreed-Upon Procedures
December 31, 2016

Porterfield
& Company CPA, PLLC
accountants • auditors • advisors

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by the Mt. Sherman Water Association, Inc., solely to assist you with respect to the complying with the requirements of the State of Arkansas specified under Ark. Code Ann. 14-234-119 as of and for the year ended December 31, 2016. The Mt. Sherman Water Association, Inc.'s management is responsible for the Department's accounting records. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated findings are as follows:

Cash and Investments

1. Perform a proof of cash for the year and reconcile year-end bank balances to book balances.

2. Confirm with depository institutions the cash on deposit and investments.

3. Agree the proof of cash ending balance to the book balances within 5% or $500, whichever is greater.

Findings: We found no exceptions.

Receipts

1. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or $500, whichever is greater.

2. Agree 10 customer payments on the accounts receivable sub ledger to deposit and billing documents.

3. For one deposit, agree the cash/check composition of the deposit with receipt information.

Findings: We found no exceptions.

Accounts Receivable

1. Agree 10 customer billings to the accounts receivable sub ledger.

2. Determine that five (5) customer adjustments were properly authorized.

Findings: We found no exceptions.

Cash Disbursements and Expenses

1. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or $500, whichever is greater.

2. Analyze all property, plant and equipment disbursements.

3. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

   Findings: The Association considers all workers to be contract labor. We found checks that should have been included in the 1099's. In addition, we found checks to a board member that should have been reported on a 1099. The Association is correcting their 1099's and 1096.

Property, Plant and Equipment

1. Determine that additions and disposals were properly accounted for in the records. (Materiality level – 5% of total equipment or $500, whichever is greater).

   Findings: There were no additions or disposals to property, plant and equipment during the year ended December 31, 2016.

Long-Term Debt

1. Schedule long-term debt and verify changes in all balances for the year.

2. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.

3. Determine that the appropriate debt service accounts have been established and maintained.

   Findings: There was no long-term debt for the year ended December 31, 2016.

General

1. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

   Findings: We found no exceptions.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mt. Sherman Water Association, Inc. and the State of Arkansas Legislative Audit and is not intended to be and should not be used by anyone other than those specified parties.

Porterfield & Company CPA, PLLC

Porterfield & Company CPA, PLLC

Harrison, Arkansas
March 9, 2018

Mt. Sherman Water Association, Inc.
Mt. Sherman, Arkansas

Financial Statements
December 31, 2016

MT. SHERMAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2016

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

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

Management is responsible for the accompanying financial statements of Mt. Sherman Water Association, Inc. (the Association), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2016, and the related statement of revenues, expenses, and changes in net assets – modified cash basis for the year then ended, and the related notes to the financial statements in accordance with the modified cash basis of accounting. We 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. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Porterfield & Company CPA, PLLC

Porterfield & Company CPA, PLLC

Harrison, Arkansas
March 9, 2018

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2016

ASSETS

	2016
Current Assets	
Cash and Cash Equivalents	$ 85,882
Total Current Assets	85,882
Investments	34,339
Restricted Assets	
Checking Accounts	14,599
Certificate of Deposits	93,123
Total Restricted Assets	107,722
Property and Equipment, at Cost	
Water Systems	322,229
Accumulated Depreciation	(241,812)
Net Property and Equipment	80,417
Total Assets	$ 308,360

LIABILITIES AND NET ASSETS

	2016
Liabilities Payable from Restricted Assets	
Customer Meter Deposits	$ 14,599
Total Liabilities Payable from Restricted Assets	14,599
Total Liabilities	14,599
Net Assets	
Restricted	93,123
Unrestricted	200,638
Total Net Assets	293,761
Total Liabilities and Net Assets	$ 308,360

See notes to financial statements.

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016
Operating Revenues	
Water Revenue	$ 151,305
Total Operating Revenue	151,305
Operating Expenses	
Water Purchases	62,501
Salaries	33,242
Utilities	3,289
Repairs and Maintenance	4,146
Insurance	1,043
Office Expenses	2,086
Depreciation	8,056
Sales Tax	10,285
Volunteer Fire Department Fees	7,083
Miscellaneous	327
Professional Fees	1,827
Total Operating Expenses	133,885
Operating Income (Loss)	17,420
Other Income (Expense)	
Interest Income	214
Total Other Income (Expense)	214
Net Increase (Decrease) in Net Assets	17,634
Net Assets, Beginning of Year	276,127
Net Assets, End of Year	$ 293,761

See notes to financial statements.

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 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 residents in monthly cycles.

Advertising

The Association follows the policy of charging the costs of advertising to expense as incurred. There was no advertising expense for the year ended December 31, 2016.

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 - RESTRICTED ASSETS

The Association has amounts restricted for customer meter deposits or to apply to the customer's outstanding receivable balance. The Association also has certificates of deposits.

	2016
Meter Deposit Account	$ 14,599
Certificate of Deposit	93,123
Total Restricted Assets	$ 107,722

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	2015	Additions/ Provisions	Transfers/ Retirements	2016
Water Systems	$ 322,229	$ -	$ -	$ 322,229
Accumulated Depreciation	(233,756)	(8,056)	-	(241,812)
Net Property and Equipment	$ 88,473	$ (8,056)	$ -	$ 80,417

Depreciation expense was $8,056 for the year ended December 31, 2016.

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 his geographic region.

The Association is currently dependent upon one water source and charges for water represent approximately 40% of its operating revenues.

NOTE 5 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 9, 2018, the date on which the financial statements were available to be issued.