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

Financial Statements
December 31, 2018 and 2017

MT. SHERMAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Commissioners of
Mt. Sherman Water Association, Inc.
Mt. Sherman, 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, 2018 and 2017, 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. 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 31, 2019

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2018 AND 2017

ASSETS

	2018	2017
Current Assets		
Cash and Cash Equivalents	$ 28,365	$ 45,661
Total Current Assets	28,365	45,661
Investments	47,415	36,250
Restricted Assets		
Meter Deposits	13,340	14,288
Debt Service	117,610	-
Certificate of Deposits	154,433	153,871
Total Restricted Assets	285,383	168,159
Property and Equipment, at Cost		
Water Systems	322,229	322,229
Construction in Progress	136,587	-
Accumulated Depreciation	(257,924)	(249,868)
Net Property and Equipment	200,892	72,361
Total Assets	$ 562,055	$ 322,431

LIABILITIES AND NET ASSETS

	2018	2017
Current Liabilities		
Current Portion of Long-Term Debt	$ 17,041	$ -
Total Current Liabilities	17,041	-
Liabilities Payable from Restricted Assets		
Customer Meter Deposits	14,288	14,290
Total Liabilities Payable from Restricted Assets	14,288	14,290
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	176,084	-
Total Long-Term Liabilities	176,084	-
Total Liabilities	207,413	14,290
Net Assets		
Restricted	271,095	153,869
Unrestricted	83,547	154,272
Total Net Assets	354,642	308,141
Total Liabilities and Net Assets	$ 562,055	$ 322,431

See 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, 2018 AND 2017

	2018	2017
Operating Revenues		
Water Revenue	$ 191,278	$ 164,376
Total Operating Revenue	191,278	164,376
Operating Expenses		
Water Purchases	66,177	65,055
Salaries	36,553	33,827
Utilities	3,370	2,971
Repairs and Maintenance	59,249	19,387
Advertising	437	-
Insurance	1,163	3,832
Office Expenses	4,762	3,060
Depreciation	8,056	8,056
Sales Tax	12,425	10,450
Volunteer Fire Department Fees	6,736	8,317
PWS Service Fees	1,134	2,304
Miscellaneous	100	53
Professional Fees	3,742	239
Total Operating Expenses	203,904	157,551
Operating Income (Loss)	(12,626)	6,825
Other Income (Expense)		
Grant Revenue	64,375	6,743
Interest Income	2,251	812
Loan Fees	(7,500)	-
Total Other Income (Expense)	59,126	7,555
Net Increase (Decrease) in Net Assets	46,500	14,380
Net Assets, Beginning of Year	308,142	293,761
Net Assets, End of Year	$ 354,642	$ 308,141

See notes to financial statements.

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Cash Receipts:		
Customer Payments Received	$ 191,278	$ 164,376
Grant Revenue	64,375	6,743
Interest Income	2,251	812
Cash Paid for:		
Water Purchases	(66,177)	(65,055)
Salaries	(36,553)	(33,827)
Utilities	(3,370)	(2,971)
Repairs and Maintenance	(59,249)	(19,387)
Advertising	(437)	-
Insurance	(1,163)	(3,832)
Office Expenses	(4,762)	(3,060)
Sales Tax	(12,425)	(10,450)
Volunteer Fire Department Fees	(6,736)	(8,317)
PWS Service Fees	(1,134)	(2,304)
Miscellaneous	(100)	(53)
Professional Fees	(3,742)	(239)
Loan Fees	(7,500)	-
Net Cash Provided by (Used In) Operating Activities	54,556	22,436
Cash Flows from Investing Activities		
Transfers (to) from Investments	(11,164)	(1,911)
Transfers (to) from Restricted Accounts	(117,224)	(60,437)
Increase in Customer Meter Deposits	(2)	(309)
Net Cash Provided (Used in) Investing Activities	(128,390)	(62,657)
Cash Flows from Financing Activities		
Purchases of Fixed Assets	(136,587)	-
Proceeds from Long-Term Debt	193,125	-
Net Cash Provided by (Used in) Financing Activities	56,538	-
Net Increase (Decrease) in Cash and Cash Equivalents	(17,296)	(40,221)
Cash and Cash Equivalents, Beginning of Year	45,661	85,882
Cash and Cash Equivalents, End of Year	$ 28,365	$ 45,661
Reconciliation of Increase (Decrease) in Net Position to Cash Flows from Operating Activities		
Net Increase (Decrease) in Net Assets	46,500	14,380
Depreciation	8,056	8,056
Net Cash Provided by (Used In) Operating Activities	$ 54,556	$ 22,436

SUPPLEMENTARY INFORMATION

	2018	2017
Cash Paid for Interest	$ -	$ -

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. Advertising expense for the years ended December 31, 2018 and 2017 was $437 and $0, 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 - RESTRICTED ASSETS

The Association maintains restricted amounts for debt service, customer meter deposits, certificates of deposits and other requirements as designated by the board.

	2018	2017
Meter Deposits	$ 13,340	$ 14,288
Debt Service	117,610	-
Certificate of Deposit	154,433	153,871
Total Restricted Assets	$ 285,383	$ 168,159

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment are summarized as follows:

	2017	Additions/ Provisions	Transfers/ Retirements	2018
Water Systems	$ 322,229	$ -	$ -	$ 322,229
Construction in Progress	-	136,587	-	136,587
Accumulated Depreciation	(249,868)	(8,056)	-	(257,924)
Net Property and Equipment	$ 72,361	$ 128,531	$ -	$ 200,892

	2016	Additions/ Provisions	Transfers/ Retirements	2017
Water Systems	$ 322,229	$ -	$ -	$ 322,229
Accumulated Depreciation	(241,812)	(8,056)	-	(249,868)
Net Property and Equipment	$ 80,417	$ (8,056)	$ -	$ 72,361

Depreciation expense was $8,056 and $8,056 for the years ended December 31, 2018 and 2017, respectively.

NOTE 4 - LONG-TERM DEBT

Long-Term Debt consisted of the following:

	2017	Additions	Principal Payments	2018
AR Natural Resources Commission loan, Original amount $193,125; annual installments of $22,352, including interest at 2.75%, through 2028	$ -	$ 193,125	$ -	$ 193,125
Total Debt	-	$ 193,125	$ -	193,125
Less Current Portion	-			(17,041)
Net Long-Term Debt	$ -			$ 176,084

NOTE 4 - LONG-TERM DEBT - Continued

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

	Principal
2019	$ 17,041
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	21,757
Total Long-Term Debt	$ 193,125

Interest expense for the years ended December 31, 2018 and 2017 totaled $0 and $0, respectively.

NOTE 5 - 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 6 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 31, 2019, the date on which the financial statements were available to be issued.