Mt. Sherman Water Association, Inc.

Jasper, Arkansas

Financial Statements

December 31, 2022 and 2021

MT. SHERMAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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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, 2022 and 2021, 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
July 14, 2023

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MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Current Assets		
Cash and Cash Equivalents	$ 17,324	$ 9,202
Total Current Assets	**17,324**	**9,202**
Investments	**44,721**	**41,350**
Restricted Assets		
Meter Deposits	15,040	14,365
Debt Proceeds	9,726	1,101
Debt Reserve	50,706	39,003
Certificates of Deposit	87,676	86,604
Total Restricted Assets	**163,148**	**141,073**
Property and Equipment, at Cost		
Water Systems	584,996	563,014
Accumulated Depreciation	(330,611)	(311,010)
Net Property and Equipment	**254,385**	**252,004**
Total Assets	**$ 479,578**	**$ 443,629**

LIABILITIES AND NET ASSETS

	2022	2021
Current Liabilities		
Current Portion of Long-term Debt	$ 18,994	$ 18,486
Total Current Liabilities	**18,994**	**18,486**
Liabilities Payable from Restricted Assets		
Customer Meter Deposits	15,040	14,365
Total Liabilities Payable from Restricted Assets	**15,040**	**14,365**
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	102,660	121,654
	102,660	**121,654**
Total Liabilities	**136,694**	**154,505**
Net Assets		
Restricted	148,108	126,708
Unrestricted	194,776	162,416
Total Net Assets	**342,884**	**289,124**
Total Liabilities and Net Assets	**$ 479,578**	**$ 443,629**

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, 2022 AND 2021

	2022	2021
Operating Revenues		
Water Revenue	$ 291,241	$ 198,874
Total Operating Revenues	**291,241**	**198,874**
Operating Expenses		
Water Purchases	102,716	105,366
Salaries	44,788	43,320
Utilities	4,642	3,856
Repairs and Maintenance	33,538	42,869
Insurance	826	815
Office Expenses	3,626	3,275
Depreciation	19,601	18,502
Sales Tax	19,306	12,727
Volunteer Fire Department Fees	11,363	7,024
Service Fees	775	1,742
Travel	1,869	-
Miscellaneous	420	705
Professional Fees	637	4,937
Total Operating Expenses	**244,107**	**245,138**
Operating Income (Loss)	**47,134**	**(46,264)**
Other Income (Expense)		
Interest Income	10,492	4,516
Interest Expense	(3,866)	(4,361)
Total Other Income (Expense)	**6,626**	**155**
Net Increase (Decrease) In Net Assets	**53,760**	**(46,109)**
Net Assets, Beginning of Year	**289,124**	**335,233**
Net Assets, End of Year	**$ 342,884**	**$ 289,124**

See Independent Accountant's Report and Notes to Financial Statements

MT. SHERMAN WATER ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash Flows from Operating Activities		
Cash Receipts:		
Customer Payments Received	$ 291,241	$ 198,874
Interest Income	10,492	4,516
Cash Paid For:		
Water Purchases	(102,716)	(105,366)
Salaries	(44,788)	(43,320)
Utilities	(4,642)	(3,856)
Repairs and Maintenance	(33,538)	(42,869)
Insurance	(826)	(815)
Office Expenses	(3,626)	(3,275)
Sales Tax	(19,306)	(12,727)
Volumteer Fire Department Fees	(11,363)	(7,024)
Service Fees	(775)	(1,742)
Travel	(1,869)	-
Miscellaneous	(420)	(480)
Professional Fees	(637)	(4,937)
Interest Expense	(3,866)	(4,361)
Net Cash Provided By (Used In) Operating Activities	**73,361**	**(27,382)**
Cash Flows from Investing Activities		
Transfers (to) from Investments	(3,371)	-
Transfers (to) from Restricted Accounts	(22,075)	41,734
Purchases of Fixed Assets	(21,982)	-
Increase (Decrease) in Customer Meter Deposits	675	(225)
Net Cash Provided By (Used In) Investing Activities	**(46,753)**	**41,509**
Cash Flows from Financing Activities		
Proceeds from Long-Term Debt	-	-
Principle Payments on Long-Term Debt	(18,486)	(17,991)
Net Cash Provided By (Used In) Financing Activities	**(18,486)**	**(17,991)**
Net Increase (Decrease) in Cash and Cash Equivalents	**8,122**	**(3,864)**
Cash and Cash Equivalents, Beginning of Year	**9,202**	**13,066**
Cash and Cash Equivalents, End of Year	**$ 17,324**	**$ 9,202**

SUPPLEMENTAL DISCLOSURES

	2022	2021
Cash Paid for Interest	**$ 3,866**	**$ 4,361**

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

MT. SHERMAN WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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.

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. There were no advertising costs for years ended December 31, 2022 and 2021, 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:

	2021	Additions/ Provisions	Transfers/ Retirements	2022
Water Systems	$ 563,014	$ 21,982	$ ---	$ 584,996
Accumulated Depreciation	(311,010)	(19,601)	---	(330,611)
Net Property and Equipment	$ 252,004	$ 2,381	$	$ 254,385

Depreciation expense was $19,601 and $18,502 for the years ended December 31, 2022 and 2021, respectively.

NOTE 3 – LONG-TERM DEBT

Long-Term Debt consisted of the following:

	2021	Additions	Principal Payments	2022
AR Natural Resources Commission Loan, Original amount $193,125; Annual installments of $22,352, Including interest at 2.75%, Through 2028	$ 140,140	$ ---	$ 18,486	$ 121,654

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

	Principle
2023	$ 18,994
2024	19,517
2025	20,053
2026	20,605
2027	21,171
2028	21,314
Total Long-Term Debt	$ 121,654

Interest expense for the years ended December 31, 2022 and 2021 totaled $ 3,866 and $4,361, 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 35% and 53% of its operating revenues for the years 2022 and 2021, respectively.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 14, 2023, the date on which the financial statements were available to be issued.