Mt. Sherman Water Association, Inc.

Jasper, Arkansas

Financial Statements

December 31, 2023 and 2022

MT. SHERMAN WATER ASSOCIATION, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

Table of Contents

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, 2023 and 2022, 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

The Killingsworth Firm CPA, PLLC

Berryville, Arkansas
July 19, 2024

414 North Springfield, P.O. Box 608, Berryville, AR 72616 | 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, 2023 AND 2022

ASSETS

	2023	2022
Current Assets		
Cash and Cash Equivalents	$ 7,228	$ 17,324
Total Current Assets	**7,228**	**17,324**
Investments	**-**	**44,721**
Restricted Assets		
Meter Deposits	14,865	15,040
Debt Proceeds	1,351	9,726
Debt Reserve	52,360	50,706
Certificates of Deposit	88,571	87,676
Total Restricted Assets	**157,147**	**163,148**
Property and Equipment, at Cost		
Water Systems	677,540	584,996
Accumulated Depreciation	(350,111)	(330,611)
Net Property and Equipment	**327,429**	**254,385**
Total Assets	**$ 491,804**	**$ 479,578**

LIABILITIES AND NET ASSETS

	2023	2022
Current Liabilities		
Current Portion of Long-term Debt	$ 19,517	$ 18,994
Total Current Liabilities	**19,517**	**18,994**
Liabilities Payable from Restricted Assets		
Customer Meter Deposits	14,865	15,040
Total Liabilities Payable from Restricted Assets	**14,865**	**15,040**
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	83,586	102,660
	83,586	**102,660**
Total Liabilities	**117,968**	**136,694**
Net Assets		
Restricted	142,282	148,108
Unrestricted	231,554	194,776
Total Net Assets	**373,836**	**342,884**
Total Liabilities and Net Assets	**$ 491,804**	**$ 479,578**

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, 2023 AND 2022

	2023	2022
Operating Revenues		
Water Revenue	$ 306,769	$ 291,241
Total Operating Revenues	**306,769**	**291,241**
Operating Expenses		
Water Purchases	103,807	102,716
Salaries	51,075	44,788
Utilities	3,272	4,642
Repairs and Maintenance	54,109	33,538
Insurance	4,219	826
Office Expenses	2,981	3,626
Depreciation	19,500	19,601
Sales Tax	19,918	19,306
Volunteer Fire Department Fees	8,344	11,363
Service Fees	2,127	775
Travel	-	1,869
Miscellaneous	778	420
Professional Fees	5,155	637
Total Operating Expenses	**275,285**	**244,107**
Operating Income (Loss)	**31,484**	**47,134**
Other Income (Expense)		
Interest Income	3,269	10,492
Interest Expense	(3,801)	(3,866)
Total Other Income (Expense)	**(532)**	**6,626**
Net Increase (Decrease) In Net Assets	**30,952**	**53,760**
Net Assets, Beginning of Year	**342,884**	**289,124**
Net Assets, End of Year	**$ 373,836**	**$ 342,884**

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, 2023 AND 2022

	2023	2022
Cash Flows from Operating Activities		
Cash Receipts:		
Customer Payments Received	$ 306,769	$ 291,241
Interest Income	3,269	10,492
Cash Paid For:		
Water Purchases	(103,807)	(102,716)
Salaries	(51,075)	(44,788)
Utilities	(3,272)	(4,642)
Repairs and Maintenance	(54,109)	(33,538)
Insurance	(4,219)	(826)
Office Expenses	(2,981)	(3,626)
Sales Tax	(19,918)	(19,306)
Volumteer Fire Department Fees	(8,344)	(11,363)
Service Fees	(2,127)	(775)
Travel	-	(1,869)
Miscellaneous	(778)	(420)
Professional Fees	(5,155)	(637)
Interest Expense	(3,801)	(3,866)
Net Cash Provided By (Used In) Operating Activities	**50,452**	**73,361**
Cash Flows from Investing Activities		
Transfers (to) from Investments	44,721	(3,371)
Transfers (to) from Restricted Accounts	6,001	(22,075)
Purchases of Fixed Assets	(92,544)	(21,982)
Increase (Decrease) in Customer Meter Deposits	(175)	675
Net Cash Provided By (Used In) Investing Activities	**(41,997)**	**(46,753)**
Cash Flows from Financing Activities		
Proceeds from Long-Term Debt	-	-
Principle Payments on Long-Term Debt	(18,551)	(18,486)
Net Cash Provided By (Used In) Financing Activities	**(18,551)**	**(18,486)**
Net Increase (Decrease) in Cash and Cash Equivalents	**(10,096)**	**8,122**
Cash and Cash Equivalents, Beginning of Year	**17,324**	**9,202**
Cash and Cash Equivalents, End of Year	**$ 7,228**	**$ 17,324**

SUPPLEMENTAL DISCLOSURES

	2023	2022
Cash Paid for Interest	**$ 3,801**	**$ 3,866**

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

MT. SHERMAN WATER ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, 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:

	2022	Additions/ Provisions	Transfers/ Retirements	2023
Water Systems	$ 584,996	$ 92,544	$ ---	$ 677,540
Accumulated Depreciation	(330,611)	(19,500)	---	(350,111)
Net Property and Equipment	$ 254,385	$ 73,044	$	$ 327,429

Depreciation expense was $19,500 and $19,601 for the years ended December 31, 2023 and 2022, respectively.

NOTE 3 – LONG-TERM DEBT

Long-Term Debt consisted of the following:

	2022	Additions	Principal Payments	2023
AR Natural Resources Commission Loan, Original amount $193,125; Annual installments of $22,352, Including interest at 2.75%, Through 2028	$ 121,654	$ ---	$ 18,551	$ 103,103

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

	Principle
2024	$ 19,517
2025	20,053
2026	20,605
2027	21,171
2028	21,757
Total Long-Term Debt	$ 103,103

Interest expense for the years ended December 31, 2023 and 2022 totaled $ 3,801 and $3,866, 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 34% and 35% of its operating revenues for the years 2023 and 2022, respectively.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 19, 2024, the date on which the financial statements were available to be issued.