Mt. Sherman Water Association, Inc.

Jasper, Arkansas

Agreed-Upon Procedures

December 31, 2019

MT. SHERMAN WATER ASSOCIATION, INC.
AGREED-UPON PROCEDURES
DECEMBER 31, 2019

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THE

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CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors
MT. SHERMAN WATER ASSOCIATION, INC.
Jasper, Arkansas

I have performed the procedures enumerated on the accompanying schedule of procedures and findings, which were agreed to by the Mt. Sherman Water Association, Inc. (the Association), solely to assist you with respect to the accounting records of the Association for the year ended December 31, 2019. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable professional standards, including the AICPA's *Code of Professional Conduct*, and its ethical principles of integrity, objectivity, professional competence, and due care. The sufficiency of these procedures is solely the responsibility of those charged with governance of the Association. Consequently, I make no representation regarding the sufficiency of the procedures described on the accompanying schedule either for the purpose for which this report has been requested or for any other purpose.

I was not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements of the Association taken as a whole. Accordingly, I do not express such an opinion. Had I performed additional procedures, other matters might have come to my 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., the Arkansas Legislative Joint Auditing Committee (if applicable), and the Arkansas Natural Resource Commission and should not be used by anyone other than these specified parties.

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

Berryville, Arkansas
April 10, 2021

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MT. SHERMAN WATER ASSOCIATION, INC.
SCHEDULE OF PROCEDURES AND FINDINGS
DECEMBER 31, 2019
(See Independent Accountant's Report)

General

1. Procedure – Determined that all items of financial significance were approved and documented in the minutes of the governing body's meetings.

Finding – No exceptions; all matters of financial significance appeared to be approved and documented in the minutes of the directors' meetings.

Cash and Investments

1. Procedure – Performed a proof of cash for the year and reconciled year-end bank balances to book balances within 5% or $500, whichever was greater.

Finding – No exceptions noted.

2. Procedure – Confirmed with depository institutions the cash on deposit.

Finding – No exceptions noted.

Cash Receipts

1. Procedure – Agreed the deposits per the proof of cash for the year with the deposits per the cash receipts journal within 5% or $500, whichever was greater.

Finding – No exceptions noted.

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

Finding – The deposit slips did not provide the information necessary to track individual payments. As an alternative, I selected four days of payment information from the accounts receivable sub-ledger, totalling 88 customer payments, and tracked the totals of those four deposits to the bank deposit slips. No exceptions were noted.

I selected one of the days, totaling 16 customer payments, and traced those payments to the billing register without exception.

Cash Receipts (Continued)

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

Finding – The cash receipts journal does not provide cash/check composition breakdowns. However, the test performed under the second step above, as executed, adequately tests this step. Therefore, no exception noted.

Accounts Receivable

1. Procedure – Agreed ten customer billings to the accounts receivable sub-ledger.

Finding – No exceptions noted.

2. Procedure – Determined that five customer adjustments were properly authorized.

Finding – Selected the five adjustments from February. Of the five, one very large adjustment was specifically approved in the Board meeting. The rest were not specifically approved, but the total of the adjustments for the month in the accounts receivable sub-ledger agreed to the total in the report given to the directors, which they approved as part of the financial report.

Though this is not an exception, my recommendation is that a list be made of the adjustments each month and made a part of the report to the Board. This protects the staff from allegations of misconduct if there are ever discrepancies in the customer accounts.

Cash Disbursements

1. Procedure - Agreed the disbursements per the proof of cash for the year with the disbursements per the cash disbursements journal within 5% or $500, whichever was greater.

Finding – No exceptions noted.

Cash Disbursements (Continued)

2. Procedure – Analyzed all property, plant, and equipment disbursements.

Finding – The improvement project was completed during the year and all expenditures were adequately documented. Major maintenance was performed on a tank, which was capitalized as it extended the life of the tank. A computer purchase was expensed as office supplies. No exceptions noted.

3. Procedure – Selected all disbursements paid to employees other than payroll and ten other disbursements and determined if they were adequately documented.

Finding – As to payments to employees, no exceptions noted. All disbursements other than payroll appeared to be authorized and adequately documented. As to other disbursements, I could not locate an invoice supporting check number 5855, written to ABC Advertising on December 16, 2019 in the amount of $49.46 for office supplies.

Though it is outside the scope of this engagement, I recommend that the Association discuss the appropriateness of paying its workers as contract labor. The IRS has very specific guidelines concerning what constitutes an employee versus contract labor. It would appear to me that certain individuals are employees and probably should be treated as such for tax purposes.

Property, Plant, and Equipment

1. Procedure – Determined that additions and disposals were properly accounted for in the records.

Finding – As noted above, the improvement project was completed during the year, and properly accounted for. In addition, as noted above, major repairs were capitalized, as appropriate.

Long-Term Debt

1. Procedure – Scheduled long-term debt and verified changes in all balances for the year.

   Finding – No exceptions noted.

2. Procedure – Confirm loans, bonds, notes, and contracts payable with lender.

   Finding – There is only one note payable, with an annual payment. Passed on the confirmation as the balance was clearly obtainable from the other tests.

3. Procedure – Determined that the appropriate debt service accounts have been established and maintained.

   Finding – Though the balance in the debt service checking account is minimal, the Association has designated several CD's as debt service, fulfilling requirements regarding debt service accounts.