

**FORDYCE RURAL WATER ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

December 31, 2022 and 2021

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Fordyce Rural Water Association, Inc.

**Report on the Audit of the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the Fordyce Rural Water Association, Inc., (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position the Organization as of December 31, 2022 and 2021 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes

our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.



Monticello, Arkansas  
February 27, 2023

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 108,910	\$ 163,713
Accounts receivable (net)	<u>30,868</u>	<u>28,359</u>
Total current assets	139,778	192,072
<u>Investments</u>	1,022,126	896,882
<u>Fixed assets, net of accumulated depreciation</u>	11,418	22,104
<u>Other Assets</u>		
Cash reserve - meter deposits	<u>32,240</u>	<u>31,095</u>
Total assets	<u>\$ 1,205,562</u>	<u>\$ 1,142,153</u>
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 9,707	\$ 9,707
Accrued interest	343	343
Other accrued expenses	1,746	1,746
Current portion of notes payable	<u>1,015</u>	<u>967</u>
Total current liabilities	12,811	12,763
<u>Long term liabilities</u>		
Notes payable, net of current amount	11,750	12,764
Customer deposits	<u>32,240</u>	<u>31,095</u>
Total long term liabilities	<u>43,990</u>	<u>43,859</u>
Total liabilities	56,801	56,622
<u>Net assets</u>		
Net assets without donor restrictions	<u>1,148,761</u>	<u>1,085,531</u>
Total liabilities and net assets	<u>\$ 1,205,562</u>	<u>\$ 1,142,153</u>

The accompanying notes are an integral part of the financial statements.

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**STATEMENT OF ACTIVITIES**

For the Years Ended December 31, 2022 and 2021

	2022	2021
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 249,437	\$ 245,430
Water connection fees	475	420
Penalties and late fees	1,780	902
Other operating income	2,432	2,436
Total revenues	254,124	249,188
Expenses		
Operating expenses	154,440	168,760
General and administrative	33,360	30,408
Total expenses	187,800	199,168
Income (loss) from operations	66,324	50,020
Non-operating income (expense)		
Interest income and net gain / (loss) on investments	(2,406)	12,063
Interest expense	(688)	(733)
Total non-operating income (expense)	(3,094)	11,330
Change in net assets without donor restrictions	63,230	61,350
Change in net assets with donor restrictions	-	-
<u>Change in net assets</u>	63,230	61,350
<u>Net assets, beginning of year</u>	1,085,531	1,024,181
<u>Net assets, end of year</u>	\$ 1,148,761	\$ 1,085,531

The accompanying notes are an integral part of the financial statements

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Cash flows from operating activities</u>		
Income from operations	\$ 66,324	\$ 50,020
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	10,686	25,434
Changes in assets and liabilities:		
Accounts receivable	(2,509)	(1,500)
Accounts payable	-	2,095
Accrued expenses	-	(297)
Total adjustments	<u>8,177</u>	<u>25,732</u>
Net cash provided by (used for) operating activities	<u>74,501</u>	<u>75,752</u>
<u>Cash flows from investing activities</u>		
Purchase of investment securities	(125,000)	(100,000)
Reinvestment of interest income and net gains on investment	(244)	(13,940)
Interest income and net gain / (loss) on investments	<u>(2,406)</u>	<u>12,063</u>
Net cash provided by (used for) investing activities	<u>(127,650)</u>	<u>(101,877)</u>
<u>Cash flows from financing activities</u>		
Principal payments	(966)	(920)
Interest payments	(688)	(1,031)
Change in customer deposits	<u>1,145</u>	<u>1,155</u>
Net cash provided by (used for) financing activities	<u>(509)</u>	<u>(796)</u>
<u>Change in cash and cash equivalents</u>	(53,658)	(26,921)
<u>Cash and cash equivalents, beginning of year</u>	<u>194,808</u>	<u>221,729</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 141,150</u>	<u>\$ 194,808</u>
<u>Cash and cash equivalents</u>	\$ 108,910	\$ 163,713
<u>Restricted cash and cash equivalents</u>	<u>32,240</u>	<u>31,095</u>
	<u>\$ 141,150</u>	<u>\$ 194,808</u>

The accompanying notes are an integral part of the financial statements

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Years Ended December 31, 2022 and 2021

	2022		
	Program (Water) Services	Management & General	Total
Water purchases	\$ 73,130	\$ -	\$ 73,130
Repairs and maintenance	57,577	-	57,577
Depreciation	10,152	534	10,686
Management expense	2,473	22,252	24,725
Director's expense	5,075	5,075	10,150
Professional services	-	3,750	3,750
Utilities	3,122	64	3,186
Insurance	1,643	183	1,826
Other expenses	1,268	1,267	2,535
Office supplies	-	235	235
Total expenses	<u>\$ 154,440</u>	<u>\$ 33,360</u>	<u>\$ 187,800</u>

	2021		
	Program (Water) Services	Management & General	Total
Water purchases	\$ 74,964	\$ -	\$ 74,964
Repairs and maintenance	58,034	-	58,034
Depreciation	24,162	1,272	25,434
Management expense	2,233	20,092	22,325
Director's expense	4,513	4,512	9,025
Professional services	-	3,600	3,600
Utilities	3,094	63	3,157
Insurance	1,616	180	1,796
Other expenses	144	144	288
Office supplies	-	545	545
Total expenses	<u>\$ 168,760</u>	<u>\$ 30,408</u>	<u>\$ 199,168</u>

The accompanying notes are an integral part of the financial statements.

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2022 and 2021

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization and Nature of Operations

The Fordyce Rural Water Association, Inc. (the “Organization”) is a not-for-profit corporation established under the laws of the State of Arkansas and is nontaxable for Federal and State income tax purposes under the Internal Revenue Code Section 501(c)12. The Organization was formed to provide rural water service to its constituents in the surrounding rural community.

Method of Accounting

The financial states of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

The Organization derives its revenues primarily from water services provided to its customers. Revenues are recognized when control of these services are provided to / transferred to its customers in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. Sales and other taxes the Organization collects concurrent with revenue producing activities are excluded from revenue. Other fees charged to customers are reported within revenue. The Organization does not have any significant financing components as payment is received at or shortly after the point of sale.

Concentrations and Credit Risks

The Organization’s credit risks primarily relate to cash and cash equivalents. The Organization maintains several cash accounts at a bank. Accounts are insured by the Federal Deposit Insurance Corporation up to an aggregate of \$250,000.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

Accounts Receivable

Accounts receivable relate to water service billings and are recorded at estimated net realizable value. Accounts are written off as they are deemed uncollectible by management based on the length of time outstanding and historical experience. Credit extended to customers are generally uncollateralized. Accounts are due ten days after the billing date. Past-due accounts are charged a late fee penalty. Customers are required to make a deposit and deposits can be offset against the receivable for delinquent billings or returned to the customer when the account is closed.

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
December 31, 2022 and 2021

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**NOTE 1 (continued)**

An allowance for doubtful accounts is maintained. The allowance for doubtful accounts for the years ended December 31, 2022 and 2021 was \$5,699. Bad debts are charged to operations as they are deemed uncollectible.

Property and Equipment

Property and Equipment are recorded at cost, including interest incurred during the construction period. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Water Plant	20-40 years
Buildings & Improvements	20-25 years
Furniture & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and value greater than \$1,000. Maintenance and repairs are charged to expense as incurred.

Net Asset Classifications

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of restrictions. Accordingly, net assets and changes in net assets are classified as follows:

*Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions.

Functional Allocation of Expenses

The costs of providing the water services and other program services of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the program and supporting services. The statement of functional expenses presents the natural classification detail of expenses by function.

The Organization classifies as program service expense those items which are directly attributable to the specific water service program. Those expenses which are not directly attributable to the program service are included in management and general expenses.

Federal Tax Status

No provision for federal income taxes is required since the Organization is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code. The Organization files an exempt return in the U.S. federal jurisdiction.

Date of Management's Review

The Organization evaluated its December 31, 2022 financial statements for subsequent events through February 27, 2023, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
December 31, 2022 and 2021

**NOTE 2 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31:

	2022	2021
Cash and cash equivalents	\$ 141,150	\$ 194,808
Receivables	30,868	28,359
	<u>172,018</u>	<u>223,167</u>
Less: restricted cash for deposit accounts	<u>(32,240)</u>	<u>(31,095)</u>
Available for general expenditure	<u>\$ 139,778</u>	<u>\$ 192,072</u>

Restricted cash consists of funds to be maintained to repay customers' deposits upon the closing of the customers' accounts. The total deposits held with the Organization required to be reserved at December 31, 2022 and 2021 are \$32,240 and \$31,095, respectively..

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$100,000). As part of its liquidity plan, excess funds are held in investments.

**NOTE 3 – INVESTMENTS**

The cost and market value of investments are as follows at December 31:

	2022		2021	
	Cost	Fair Market Value	Cost	Fair Market Value
Investments				
Money market	\$ 91,040	\$ 91,040	\$ 134,187	\$ 134,187
Certificate of deposits	412,126	410,760	234,411	236,414
Annuities	400,000	415,642	400,000	407,237
Municipal bonds	111,609	104,684	111,765	119,044
Total	<u>\$ 1,014,775</u>	<u>\$ 1,022,126</u>	<u>\$ 880,363</u>	<u>\$ 896,882</u>

The investment maturities are as follows at December 31:

	2022			
	Investment Maturity (in Years)			
	Less than 1	1 through 5	6 through 10	More than 10
Investments				
Money market	\$ 91,040	\$ -	\$ -	\$ -
Certificate of deposits	410,760	-	-	-
Annuities	-	415,642	-	-
Municipal bonds	-	-	58,532	46,152
Total	<u>\$ 501,800</u>	<u>\$ 415,642</u>	<u>\$ 58,532</u>	<u>\$ 46,152</u>

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

December 31, 2022 and 2021

**NOTE 4 – FAIR VALUE MEASUREMENT**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under generally accepted accounting principles are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities the Organization has the ability to access.
- Level 2 – Inputs (other than quoted prices with level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs which are unobservable for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

Assets at Fair Value as of December 31, 2022				
	Level 1	Level 2	Level 3	Total
Investments				
Money market	\$ 91,040	\$ -	\$ -	\$ 91,040
Certificate of deposits	-	410,760	-	410,760
Annuities	-	415,642	-	415,642
Municipal bonds	-	104,684	-	104,684
Total	<u>\$ 91,040</u>	<u>\$ 931,086</u>	<u>\$ -</u>	<u>\$ 1,022,126</u>

Assets at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Investments				
Money market	\$ 134,187	\$ -	\$ -	\$ 134,187
Certificate of deposits	-	236,414	-	236,414
Annuities	-	407,237	-	407,237
Municipal bonds	-	119,044	-	119,044
Total	<u>\$ 134,187</u>	<u>\$ 762,695</u>	<u>\$ -</u>	<u>\$ 896,882</u>

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

*Money market:* Valued at amortized cost, which approximates fair value.

*Municipal bonds, Certificate of deposits, and Annuities:* The Organization uses third party pricing services to determine the fair value of its investments. The third-party pricing services use industry-standard models to price the investments that consider various assumptions including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
December 31, 2022 and 2021

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and Equipment consisted of the following balances at December 31:

	2022	2021
Distribution system	\$ 997,911	\$ 997,912
Furniture & equipment	42,156	42,156
Water plant facility	51,488	51,488
	<u>1,091,555</u>	<u>1,091,556</u>
Accumulated depreciation	<u>(1,080,137)</u>	<u>(1,069,452)</u>
	<u>\$ 11,418</u>	<u>\$ 22,104</u>

**NOTE 6 – LONG-TERM DEBT**

Long-term debt consisted of the following at December 31:

	2022	2021
Note payable to the ANRC for the purchase of property and equipment, payable in annual installments of \$1,653, including principal and interest through 2032; interest at 5.00%, secured by property and equipment	12,765	13,731

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the years ending December 31:

2023	\$ 1,015
2024	1,066
2025	1,119
2026	1,175
2027	1,234
Thereafter	<u>7,156</u>
	<u>\$ 12,765</u>

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Organization pays their treasurer \$1,800 monthly for the Organization's bookkeeping. In addition, there are expense reimbursements paid to the treasurer for office expenses paid by the treasurer on behalf of the Organization. There is an additional Christmas bonus that was given to the treasurer by the Organization. Total amount paid to the Organization's treasurer for the years ended December 31:

	2022	2021
Monthly bookkeeping expense	\$ 24,000	\$ 21,600
Expense reimbursements	1,072	1,216
Christmas bonus	500	500
Total	<u>\$ 25,072</u>	<u>\$ 22,816</u>

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
December 31, 2022 and 2021

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**NOTE 7 (continued)**

The Organization pays the board president \$500 monthly for the Organization's general monthly operations. In addition, there are expense reimbursements for amounts paid by the president on behalf of the Organization and payments for additional services performed by the president such as lawn care maintenance. There is an additional Christmas bonus that was given to the board president by the Organization. Total amount paid to the Organization's president for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Monthly director's expense	\$ 7,200	\$ 6,000
Expense reimbursements	4,199	2,776
Christmas bonus	<u>350</u>	<u>350</u>
Total	<u>\$ 11,749</u>	<u>\$ 9,126</u>

The other board members received compensation of \$75 for attendance to meetings and \$350 for a Christmas bonus for the year ended December 31, 2022.

**NOTE 8 – CONCENTRATIONS**

The Organization entered into an agreement with the City of Fordyce Water Department (the "Department") whereby the Department operates the Organization's water system. The Department is responsible for day to day management functions and decisions, and the maintenance and upkeep of the Organization's water system. The Organization purchases its water from the Department and pays the an additional \$5 per month per meter for operational costs. Additionally, the Department provides other maintenance and repair services based on a schedule of charges set forth in the agreement between the Organization and the Department.

Total transactions with the Department for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Water purchases	\$ 73,130	\$ 74,964
Maintenance and operation	<u>57,577</u>	<u>58,034</u>
Total	<u>\$ 130,707</u>	<u>\$ 132,998</u>

**SEARCY & ASSOCIATES, LLC**  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the  
Fordyce Rural Water Association, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Fordyce Rural Water Association, Inc., (the "Organization") (a nonprofit organization), which comprise the statement of financial position for the year ended December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 27, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Organization's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Searcy & Associates LLC". The signature is written in a cursive, flowing style.

Searcy & Associates, LLC  
Monticello, Arkansas  
February 27, 2023

**FORDYCE RURAL WATER ASSOCIATION, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended December 31, 2022

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**SIGNIFICANT DEFICIENCIES**

2022-001 - Segregation of Duties

**Condition:** The Organization did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

**Criteria:** Proper segregation of controls should be in place to provide reasonable assurance that fraud or error does not occur.

**Cause:** The Organization has limited financial resources which prevent it from properly segregating financial accounting duties.

**Effect:** Without proper segregation of duties, opportunity for fraud or error exists.

**Recommendation:** The Organization should evaluate its internal controls and segregate financial duties to the extent possible with the current staffing levels. The Organization should consider additional oversight where segregation is not possible.

**Management's Response:** The Organization will segregate financial duties to the extent possible with the current staffing levels.