

CENTER GROVE WATER USERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2023 and 2022

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Center Grove Water Users' Association, Inc.

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Center Grove Water Users' Association, Inc., (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023 and 2022, 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, 2023 and 2022 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.

Supplementary Information and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The accompanying Schedule of Insurance in Force is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2024 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.

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
August 19, 2024

CENTER GROVE WATER USERS' ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2023 and 2022

	2023	2022
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 833,122	\$ 679,062
Accounts receivable	99,937	94,380
Other receivables	60,978	-
Other current assets	4,066	4,066
Total current assets	998,103	777,508
<u>Fixed assets, net of accumulated depreciation</u>	3,266,983	3,370,667
<u>Other Assets</u>		
Cash reserve - board designated	355,242	345,875
Cash reserve - meter deposits	74,869	73,661
Cash reserve - debt service	207,737	154,791
Total other assets	637,848	574,327
Total assets	\$ 4,902,934	\$ 4,722,502
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 7,798	\$ 10,869
Accrued interest	2,142	2,142
Accrued payroll	2,762	1,997
Other accrued expenses	6,347	5,894
Current portion of notes payable	36,360	35,507
Total current liabilities	55,409	56,409
<u>Long term liabilities</u>		
Notes payable, net of current amount	1,762,521	1,798,913
Customer deposits	74,869	73,661
Total long term liabilities	1,837,390	1,872,574
Total liabilities	1,892,799	1,928,983
<u>Net assets</u>		
Net assets without restrictions	2,447,156	2,292,853
Net assets without restrictions - Board designated	355,242	345,875
Net assets with restrictions	207,737	154,791
Total net assets	3,010,135	2,793,519
Total liabilities and net assets	\$ 4,902,934	\$ 4,722,502

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

CENTER GROVE WATER USERS' ASSOCIATION, INC.
STATEMENT OF ACTIVITIES

For the Years Ended December 31, 2023 and 2022

	2023	2022
<u>Changes in net assets without restrictions</u>		
Revenues		
Water services	\$ 921,637	\$ 797,726
Water connection fees	1,100	1,280
Penalties and late fees	42,995	32,367
Construction charges	36,050	29,762
Maintenance charges	18,025	14,931
Other operating income	6,050	12,670
Other income	29,915	22,937
Total revenues	1,055,772	911,673
Expenses		
Operating expenses	587,646	612,960
General and administrative	225,658	233,426
Total expenses	813,304	846,386
Income (loss) from operations	242,468	65,287
Non-operating income (expense)		
Interest income	17,329	4,192
Revenue restricted for debt service	(52,946)	(19,378)
Gain on disposal of assets	-	-
Interest expense	(43,181)	(44,014)
Total non-operating income (expense)	(78,798)	(59,200)
Change in net assets without restrictions	163,670	6,087
<u>Changes in net assets with restrictions</u>		
Revenue restricted for debt service	52,946	19,378
Net assets released from restrictions	-	-
Change in net assets with restrictions	52,946	19,378
<u>Change in net assets</u>	216,616	25,465
<u>Net assets, beginning of year</u>	2,793,519	2,768,054
<u>Net assets, end of year</u>	\$ 3,010,135	\$ 2,793,519

The accompanying notes are an integral part of the financial statements

CENTER GROVE WATER USERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

	2023	2022
<u>Cash flows from operating activities</u>		
Income from operations	\$ 242,468	\$ 65,287
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	169,567	176,016
Changes in assets and liabilities:		
Accounts receivable	(5,557)	(26,238)
Other receivables	(60,978)	4,026
Accounts payable	(3,071)	(6,511)
Accrued expenses	1,218	2,544
Total adjustments	101,179	149,837
Net cash provided by (used for) operating activities	343,647	215,124
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(65,883)	(68,810)
Proceeds from disposal of property, plant and equipment	-	-
Interest income	17,329	4,192
Net cash provided by (used for) investing activities	(48,554)	(64,618)
<u>Cash flows from financing activities</u>		
Principal payments	(35,539)	(34,706)
Interest payments	(43,181)	(44,014)
Change in customer deposits	1,208	3,417
Net cash provided by (used for) financing activities	(77,512)	(75,303)
<u>Change in cash and cash equivalents</u>	217,581	75,203
<u>Cash and cash equivalents, beginning of year</u>	1,253,389	1,178,186
<u>Cash and cash equivalents, end of year</u>	\$ 1,470,970	\$ 1,253,389
<u>Cash and cash equivalents</u>	\$ 1,188,364	\$ 1,024,937
<u>Restricted cash and cash equivalents</u>	282,606	228,452
	\$ 1,470,970	\$ 1,253,389
<u>Supplemental information</u>		
Cash paid for sales tax	\$ 72,274	\$ 60,365

The accompanying notes are an integral part of the financial statements

CENTER GROVE WATER USERS' ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES

For the Years Ended December 31, 2023 and 2022

	2023		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 176,808	\$ 117,872	\$ 294,680
Depreciation	161,089	8,478	169,567
Supplies	82,121	9,125	91,246
Utilities	37,443	4,160	41,603
Insurance	40,458	10,115	50,573
Repairs and maintenance	19,661	1,035	20,696
Travel expenses	29,591	1,557	31,148
Payroll taxes	11,352	7,568	18,920
Dues, subscriptions, licenses	-	8,839	8,839
Director expense	-	10,675	10,675
Professional services	5,278	5,277	10,555
Communication	-	9,465	9,465
Contract labor	312	-	312
Office supplies	13,246	30,907	44,153
Training	64	-	64
Other expenses	1,364	585	1,949
Bad debt	5,567	-	5,567
Unauthorized expenses	3,292	-	3,292
Total expenses	<u>\$ 587,646</u>	<u>\$ 225,658</u>	<u>\$ 813,304</u>

	2022		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 186,927	\$ 124,618	\$ 311,545
Depreciation	167,215	8,801	176,016
Supplies	70,632	7,848	78,480
Utilities	48,611	5,401	54,012
Insurance	37,623	9,406	47,029
Repairs and maintenance	33,999	1,789	35,788
Travel expenses	31,405	1,653	33,058
Payroll taxes	11,023	7,349	18,372
Dues, subscriptions, licenses	-	7,948	7,948
Director expense	-	10,900	10,900
Professional services	4,792	4,791	9,583
Communication	-	8,043	8,043
Contract labor	2,550	-	2,550
Office supplies	14,914	34,800	49,714
Training	84	-	84
Other expenses	185	79	264
Bad debt	3,000	-	3,000
Total expenses	<u>\$ 612,960</u>	<u>\$ 233,426</u>	<u>\$ 846,386</u>

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

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The Center Grove Water Users' 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.

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 is 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.

An allowance for doubtful accounts is maintained. Accounts receivable is shown net of allowance of doubtful accounts that is \$39,699 and \$34,132 as of December 31, 2023 and 2022, respectively.

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

NOTE 1 (continued)

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
Vehicles & 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.

Net Assets With Donor Restrictions – Net assets subject to restrictions that are temporary in nature, such as those that will be met by the passage of time or other specified events or are perpetual in nature, such as those where resources must be maintained in perpetuity.

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.

The Organization's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes the tax returns normally remain open for possible examination for a period of three years after the filing deadline of the respective return.

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

NOTE 1 (continued)

Date of Management's Review

The Organization evaluated its December 31, 2023 financial statements for subsequent events through August 19, 2024, 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.

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:

	2023	2022
Cash and cash equivalents	\$ 1,470,970	\$ 1,253,389
Receivables	99,937	94,380
	<u>1,570,907</u>	<u>1,347,769</u>
Less: board restricted cash	(355,242)	(345,875)
Less: restricted cash for deposit accounts	(74,869)	(73,661)
Less: restricted cash for debt requirements	<u>(207,737)</u>	<u>(154,791)</u>
Available for general expenditure	<u>\$ 933,059</u>	<u>\$ 773,442</u>

Restricted cash consists of funds held in reserve by the Organization as required by the U.S. Department of Agriculture – Rural Development (“USDA”). In accordance with loan covenants, the USDA requires the Organization to restrict \$8,800 in cash annually for debt service until the balance equals \$88,000, which equals the amount of principal and interest annual payments. In addition, the USDA requires the Organization to restrict \$25,966 in cash annually for short-lived asset replacement costs until the balance exceeds \$348,000, which equals the expected cost of assets to be replaced during the life of the loan. It is the Organization’s policy to use other available cash for equipment replacement or repairs rather than the restricted amounts. The Organization had restricted cash of \$154,791 as of December 31, 2023 and \$135,413 as of December 31, 2022 for the purpose of satisfying the loan covenants.

An additional reserve is required 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, 2023 and 2022 are \$73,661 and \$70,244, respectively.

The Organization’s goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$360,000). As part of its liquidity plan, excess cash is held in timed deposits.

NOTE 3 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2023.

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

NOTE 3 (continued)

Category 1 – Insured FDIC or secured with securities held by the Organization (or public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institutions' trust department in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust department or agent in the Organization's name, or collateralized with no written or approved collateralized agreement.

The level of security for the Organization's bank deposits are as follows:

2023				
	Total	Category 1	Category 2	Category 3
Depository				
Bank A	\$ 1,107,573	\$ 250,000	\$ 857,573	\$ -
Bank B	326,599	250,000	76,599	-
Bank C	25,058	25,058	-	-
Bank D	14,566	14,566	-	-
Total	\$ 1,473,796	\$ 539,624	\$ 934,172	\$ -

2022				
	Total	Category 1	Category 2	Category 3
Depository				
Bank A	\$ 910,137	\$ 250,000	\$ 660,137	\$ -
Bank B	326,257	250,000	76,257	-
Bank C	25,055	25,055	-	-
Bank D	13,149	13,149	-	-
Total	\$ 1,274,598	\$ 538,204	\$ 736,394	\$ -

The amounts shown are bank ledger balances of the referenced banks' deposits and may differ from the Organization's general ledger balances.

	2023	2022
Meter deposits	\$ 74,869	\$ 73,661
Debt reserve requirements	207,737	154,791
Total restricted cash	\$ 282,606	\$ 228,452

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following balances at December 31, 2023 and 2022:

	2023	2022
Land	\$ 176,926	\$ 176,926
Inventory items	58,684	58,684
Distribution system	6,217,548	6,182,783
Water plant facility	304,955	304,955
Construction in progress	59,427	28,309
	6,817,540	6,751,657
Accumulated depreciation	(3,550,557)	(3,380,990)
	\$ 3,266,983	\$ 3,370,667

NOTE 5 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2023 and 2022:

	2023	2022
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$6,560, including principal and interest through 2056; interest at 2.375%, secured by property and equipment	\$ 1,798,881	\$ 1,834,420

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the year ending December 31, 2023:

2024	\$	36,360
2025		37,233
2026		38,127
2027		39,042
2028		39,980
Thereafter		1,608,139
		\$ 1,798,881

NOTE 6 – RETIREMENT BENEFITS

The Organization maintains a Simple Retirement Plan approved under section 408(p) of the Internal Revenue Code. The Organization has elected to match deferrals up to 3% of the participating employee's salary. Payments to the participants' accounts are made to a Simple IRA in the employee's name at the financial institution. Expenses to the Organization for retirement benefits for the years ended December 31, 2023 and 2022 were \$5,779 and \$5,386, respectively.

CENTER GROVE WATER USERS' ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2023 and 2022

NOTE 7 – SUBSEQUENT EVENTS / FRAUDULENT CHARGES

The Organization discovered fraud being committed by the office manager on February 2024. The fraud consisted of using credit cards to charge unauthorized personal expenses. The fraudulent use of the credit card started in 2022 with the majority of the unauthorized expenses occurring during 2023 and 2024. The employee was terminated and currently being prosecuted. The employee managed to defraud the Organization for \$60,680 during 2023 and \$12,736 during 2024. The Organization filed a claim for insurance and were reimbursed \$70,124 in May of 2024. The Organization has recorded the insurance proceeds in 2023 and 2024 and netted against the 'Unauthorized expenses' as shown on the statement of functional expenses.

SUPPLEMENTAL INFORMATION

CENTER GROVE WATER USERS' ASSOCIATION, INC.
SCHEDULE OF INSURANCE IN FORCE

December 31, 2023

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Policy Amount</u>
Workers' Compensation	2h54590-23	Statutory
Commercial Property	2a54590-23	\$ 4,960,744
Inland Marine	2c54590-23	\$ 500,000
Comprehensive General Liability - General Aggregate Limit	2d54590-23	\$ 2,000,000
Automobile Liability	2e54590-23	\$ 1,000,000
Umbrella	2j54590-23	\$ 3,000,000
Fidelity Bond	2f54590-23	\$ 125,000
Director's and Officer's Liability	2k54590-23	\$ 1,000,000
Cyber Solutions	2q54590-23	\$ 50,000

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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
Center Grove Water Users' 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 Center Grove Water Users' Association, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position for the year ended December 31, 2023, 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 August 19, 2024.

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 and 2023-002 that we consider to be material weaknesses. We did not identify any deficiencies in internal control 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 cursive script that reads "Searcy & Associates LLC". The signature is written in black ink and is positioned above the typed name of the firm.

Searcy & Associates, LLC
Monticello, Arkansas
August 19, 2024

CENTER GROVE WATER USERS' ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2023

MATERIAL WEAKNESSES

2023-001 – Fraudulent Expenses & Unreconciled Bank Statements

Condition: The Organization had an employee use the Organization's credit card for personal expenses. The credit card expense statements were not being reviewed and approved before payment. The credit card expenses were not recorded in the general ledger and payments made were not recorded. Bank reconciliations on the account were not performed that would have highlighted the excessive charges not recorded and the reconciliations were not reviewed to ensure the reconciliations were being performed.

Criteria: Bank reconciliations should be performed timely and accurately and reviewed and approved by someone other than the reconciler.

Cause: The Organization has limited financial resources to hire additional staff which prevent it from properly segregating financial accounting duties and there is also familiarity risk that prevents a skeptical review between personnel.

Effect: Without proper segregation of duties and without professional skepticism, 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 familiarity threats exist.

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

2023-002 - Segregation of Duties (repeat finding)

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.