

SOUTH SHERIDAN WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

June 30, 2024 and 2023

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
Notes to Financial Statements	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	13
Schedule of Findings and Questioned Costs	15

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.
CHARLES SEARCY, C.P.A.
TINA MARTIN, C.P.A.

POST OFFICE BOX 418
MONTICELLO, ARKANSAS 71657
(870) 367-3580 or (870) 367-3467
FAX (870) 367-2154
searcyco@searcy-cpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Sheridan Water Association, Inc.

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the South Sheridan Water Association, Inc., (the "Organization"), (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024 and 2023, 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 June 30, 2024 and 2023, 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 August 22, 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.



Searcy & Associates, LLC
Monticello, Arkansas
August 22, 2024

SOUTH SHERIDAN WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2024 and 2023

	2024	2023
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 393,290	\$ 234,905
Accounts receivable, net of allowance	101,327	93,734
Other current assets	22,528	22,528
Total current assets	517,145	351,167
<u>Fixed assets, net of accumulated depreciation</u>	2,345,653	2,432,431
<u>Restricted assets</u>		
Cash reserve - meter deposits	94,547	91,116
Cash reserve - debt service	376,439	349,839
Total restricted assets	470,986	440,955
Total assets	\$ 3,333,784	\$ 3,224,553
<u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 15,449	\$ 25,449
Accrued interest	4,602	4,602
Accrued payroll	4,928	1,875
Accrued paid time off	5,698	5,698
Other accrued expenses	5,148	4,840
Current portion of notes payable	106,684	101,328
Total current liabilities	142,509	143,792
<u>Long term liabilities</u>		
Notes payable, net of current amount	1,421,638	1,528,323
Customer deposits	94,547	91,116
Total long term liabilities	1,516,185	1,619,439
Total liabilities	1,658,694	1,763,231
<u>Net assets</u>		
Net assets without donor restrictions	1,675,090	1,461,322
Total liabilities and net assets	\$ 3,333,784	\$ 3,224,553

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

SOUTH SHERIDAN WATER ASSOCIATION, INC.
STATEMENT OF ACTIVITIES

For the Years Ended June 30, 2024 and 2023

	2024	2023
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 714,550	\$ 635,244
Water connection fees	22,855	17,760
Penalties and late fees	10,673	9,546
Other operating income	29,280	7,835
Miscellaneous income	36,122	37,840
Total revenues	813,480	708,225
Expenses		
Operating expenses	536,857	596,360
General and administrative	177,688	154,126
Total expenses	714,545	750,486
Income (loss) from operations	98,935	(42,261)
Non-operating income (expense)		
Interest income	5,398	2,490
Expense reimbursement	172,215	185,490
Rent income	4,800	4,800
Interest expense	(67,580)	(72,646)
Total non-operating income (expense)	114,833	120,134
Change in net assets without donor restrictions	213,768	77,873
<u>Net assets, beginning of year</u>	1,461,322	1,383,449
<u>Net assets, end of year</u>	\$ 1,675,090	\$ 1,461,322

The accompanying notes are an integral part of the financial statements

SOUTH SHERIDAN WATER ASSOCIATION, INC.
STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2024 and 2023

	2024	2023
<u>Cash flows from operating activities</u>		
Income from operations	\$ 98,935	\$ (42,261)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	140,105	135,728
Changes in assets and liabilities:		
Accounts receivable	(7,593)	(22,402)
Other current assets	-	(1,866)
Accounts payable	(10,000)	(1)
Accrued expenses	3,361	(6,536)
Total adjustments	125,873	104,923
Net cash provided by (used for) operating activities	224,808	62,662
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(53,327)	(120,272)
Proceeds from expense reimbursements	172,215	185,490
Proceeds from rental income	4,800	4,800
Interest income	5,398	2,490
Net cash provided by (used for) investing activities	129,086	72,508
<u>Cash flows from financing activities</u>		
Principal payments	(101,329)	(96,264)
Interest payments	(67,580)	(72,646)
Change in customer deposits	3,431	2,316
Net cash provided by (used for) financing activities	(165,478)	(166,594)
<u>Change in cash and cash equivalents</u>	188,416	(31,424)
<u>Cash and cash equivalents, beginning of year</u>	675,860	707,284
<u>Cash and cash equivalents, end of year</u>	\$ 864,276	\$ 675,860
<u>Cash and cash equivalents</u>	\$ 393,290	\$ 234,905
<u>Restricted cash and cash equivalents</u>	470,986	440,955
	\$ 864,276	\$ 675,860
<u>Supplemental information</u>		
Cash paid for sales tax	\$ 55,268	\$ 48,976

The accompanying notes are an integral part of the financial statements

SOUTH SHERIDAN WATER ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2024 and 2023

	2024		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 124,658	\$ 83,106	\$ 207,764
Depreciation	133,100	7,005	140,105
Repairs and maintenance	117,121	6,164	123,285
Utilities	61,684	6,854	68,538
Insurance	36,504	9,126	45,630
Chemicals	37,713	-	37,713
Office Supplies	-	16,574	16,574
Payroll taxes	8,594	5,729	14,323
Travel expenses	4,103	216	4,319
Other Expenses	6,227	6,226	12,453
Supplies	2,949	328	3,277
Professional services	-	32,293	32,293
License, permits, dues, fees	3,966	3,965	7,931
Training	238	102	340
Total expenses	<u>\$ 536,857</u>	<u>\$ 177,688</u>	<u>\$ 714,545</u>

	2023		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 122,036	\$ 81,358	\$ 203,394
Depreciation	128,942	6,786	135,728
Repairs and maintenance	170,136	8,955	179,091
Utilities	74,135	8,237	82,372
Insurance	31,499	7,875	39,374
Chemicals	28,821	-	28,821
Office Supplies	-	17,203	17,203
Payroll taxes	8,613	5,742	14,355
Travel expenses	17,715	932	18,647
Other Expenses	4,860	4,859	9,719
Supplies	5,036	560	5,596
Professional services	-	7,116	7,116
License, permits, dues, fees	4,455	4,455	8,910
Training	112	48	160
Total expenses	<u>\$ 596,360</u>	<u>\$ 154,126</u>	<u>\$ 750,486</u>

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

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

The South Sheridan 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.

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 \$21,537 as of June 30, 2024 and 2023.

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2024 and 2023

NOTE 1 (continued)

Inventory

Inventories consist of various meters, couplings, pipes, parts, etc., used in the customary operations of the Organization. Inventories are stated at lower of cost or net realizable value using the FIFO (first-in, first-out) method of valuation.

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 / Distribution Systems	20-40 years
Buildings & Improvements	10-25 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.

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.

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2024 and 2023

NOTE 1 (continued)

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 and from Arkansas state taxes under similar exemption.

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.

Reclassification

Certain accounts in prior period financial statements have been reclassified for comparative purposes to conform with the presentation in the current period financial statements.

Date of Management's Review

The Organization evaluated its June 30, 2024 financial statements for subsequent events through August 22, 2024, the date the financial statements were available to be issued.

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:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 864,276	\$ 675,860
Receivables	<u>101,327</u>	<u>93,734</u>
	965,603	769,594
Less: restricted cash for deposit accounts	(94,547)	(91,116)
Less: restricted cash for debt requirements	<u>(376,439)</u>	<u>(349,839)</u>
Available for general expenditure	<u>\$ 494,617</u>	<u>\$ 328,639</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 cash for debt service until the balance equals \$85,416, which equals the amount of principal and interest annual payments. In addition, the USDA requires the Organization to restrict cash annually for short-lived asset replacement costs until the balance exceeds \$115,113, 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 \$236,346 as of June 30, 2024 for the purpose of satisfying these loan covenants.

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2024 and 2023

NOTE 2 (continued)

Restricted cash consists of funds held in reserve by the Organization as required by the Arkansas Natural Resource Commission (“ANRC”). In accordance with loan covenants, the ANRC requires the Organization to restrict cash for debt service until the balance equals \$83,487, which equals the amount of principal and interest annual payments. In addition, the USDA requires the Organization to restrict cash annually at a rate of 3% of revenues for short-lived asset replacement costs until the balance exceeds \$100,000, 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 \$159,303 as of June 30, 2024 for the purpose of satisfying these 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 June 30, 2024 and 2023 are \$94,547 and \$91,116, 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 June 30, 2024.

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:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 800,737	\$ 250,000	\$ 550,737	\$ -
Bank B	68,412	68,412	-	-
Total	\$ 869,149	\$ 318,412	\$ 550,737	\$ -

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

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2024 and 2023

NOTE 4 – PROPERTY AND EQUIPMENT

Property and Equipment consisted of the following balances at June 30:

	2024	2023
Land	\$ 122,761	\$ 122,761
Distribution system	4,839,648	4,798,556
Water plant facility	301,671	289,436
	5,264,080	5,210,753
Accumulated depreciation	(2,918,427)	(2,778,322)
	\$ 2,345,653	\$ 2,432,431

NOTE 5 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2024	2023
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$3,899, including principal and interest through 2042; interest at 4.625%, secured by property and equipment	\$ 539,250	\$ 560,555
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$2,877, including principal and interest through 2045; interest at 4.375%, secured by property and equipment	467,838	481,561
Note payable to the USDA for the purchase of property and equipment, payable in 480 monthly installments of \$342, including principal and interest through 2042; interest at 4.625%, secured by property and equipment	49,297	51,074
Note payable to the ANRC for the purchase of property and equipment, payable in 60 semi-annual installments of \$55,695, including principal and interest through 2026; interest at 6.75%, secured by property and equipment	102,590	148,998
Note payable to the ANRC for the purchase of property and equipment, payable in 240 monthly installments of \$2,316, including principal and interest through 2040; interest at 2.55%, secured by property and equipment	369,347	387,463
	\$ 1,528,322	\$ 1,629,651

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
 June 30, 2024 and 2023

NOTE 5 (continued)

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the years ending June 30:

	Principal	Interest
2025	106,684	62,199
2026	112,349	56,534
2027	61,708	51,480
2028	64,164	49,024
2029	66,722	46,466
2030-2034	375,935	190,005
2035-2039	458,258	107,682
2040-2044	262,654	25,432
2045-2049	19,848	290
	\$ 1,528,322	\$ 589,112

NOTE 6 – COLLABORATIVE AGREEMENT / JOINT VENTURE

The Organization is in a collaborative agreement with Little Creek Water Association, Inc. (“LCWA”). Under the agreement, the Organization and LCWA share the same office building, water lines, portions of outstanding debt, various fixed assets, and expenses on any given year.

The Organization currently receives payments of \$400 from LCWA on a month-to-month operating lease for the use of the office building. The lease is cancellable by either party at any time. Total rent income received from LCWA for the year ended June 30, 2024 and 2023 was \$4,800.

Fixed asset purchases are split either 50/50 or 40/60 depending on the intended use of the fixed asset. The Organization typically capitalizes the full cost basis of the asset and recognizes the subsequent payments from LCWA as revenue and expenses immediately.

The ANRC debt is shared 50/50 and the total outstanding principal recorded in the statement of financial position and related disclosures are reported on the Organization’s 50% share in the debt and does not represent the full outstanding balance of the debt that the Organization can be held liable for in the case of default by LCWA.

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.
CHARLES SEARCY, C.P.A.
TINA MARTIN, C.P.A.

POST OFFICE BOX 418
MONTICELLO, ARKANSAS 71657
(870) 367-3580 or (870) 367-3467
FAX (870) 367-2154
searcyco@searcy-cpa.com

**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
South Sheridan 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 South Sheridan Water Association, Inc., (the "Organization") (a nonprofit organization), which comprise the statement of financial position for the year ended June 30, 2024, 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 22, 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. 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 2024-001 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 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 22, 2024

SOUTH SHERIDAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2024

SIGNIFICANT DEFICIENCIES

2024-001 - 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.