

SOUTH SHERIDAN WATER ASSOCIATION, INC.

FINANCIAL STATEMENTS

June 30, 2026 and 2025

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
SUPPLEMENTAL INFORMATION	
Schedule of System Information	14
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>	15
Schedule of Findings and Questioned Costs	17

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

Opinion

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, 2026 and 2025, 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 of the Organization as of June 30, 2026 and 2025, 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 Opinion

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 opinion.

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 opinion. 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 14, 2026 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 14, 2026

SOUTH SHERIDAN WATER ASSOCIATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2026 and 2025

	<u>2026</u>	<u>2025</u>
<u>Assets</u>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 636,468	\$ 545,780
Accounts receivable, net of allowance	107,752	107,987
Other current assets	<u>25,923</u>	<u>22,528</u>
Total current assets	770,143	676,295
 <u>Fixed assets, net of accumulated depreciation</u>	 <u>2,321,904</u>	 <u>2,228,436</u>
 <u>Restricted assets</u>		
Cash reserve - meter deposits	101,888	99,834
Cash reserve - debt service	<u>476,951</u>	<u>408,484</u>
Total restricted assets	578,839	508,318
 Total assets	 <u>\$ 3,670,886</u>	 <u>\$ 3,413,049</u>
 <u>Liabilities and Net Assets</u>		
<u>Current liabilities</u>		
Accounts payable	\$ 15,449	\$ 15,449
Accrued interest	2,847	4,602
Accrued payroll	2,692	3,279
Accrued paid time off	5,698	5,698
Other accrued expenses	5,273	5,152
Current portion of notes payable	<u>62,460</u>	<u>113,067</u>
Total current liabilities	94,419	147,247
 <u>Long term liabilities</u>		
Notes payable, net of current amount	1,230,922	1,293,382
Customer deposits	<u>101,888</u>	<u>99,834</u>
Total long term liabilities	<u>1,332,810</u>	<u>1,393,216</u>
 Total liabilities	 <u>1,427,229</u>	 <u>1,540,463</u>
 <u>Net assets</u>		
Net assets without donor restrictions	<u>2,243,657</u>	<u>1,872,586</u>
 Total liabilities and net assets	 <u>\$ 3,670,886</u>	 <u>\$ 3,413,049</u>

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, 2026 and 2025

	2026	2025
<u>Changes in net assets without donor restrictions</u>		
Revenues		
Water services	\$ 770,501	\$ 761,498
Water connection fees	25,190	15,840
Penalties and late fees	12,508	10,556
Other operating income	19,435	19,450
Miscellaneous income	9,552	80,851
Total revenues	837,186	888,195
Expenses		
Operating expenses	640,646	632,967
General and administrative	210,829	178,857
Total expenses	851,475	811,824
Income (loss) from operations	(14,289)	76,371
Non-operating income (expense)		
Interest income	8,270	7,077
Gain on insurance recovery for fire damage	244,293	-
Expense reimbursement	180,666	170,410
Rent income	7,200	5,600
Interest expense	(55,069)	(61,962)
Total non-operating income (expense)	385,360	121,125
Change in net assets without donor restrictions	371,071	197,496
<u>Net assets, beginning of year</u>	1,872,586	1,675,090
<u>Net assets, end of year</u>	\$ 2,243,657	\$ 1,872,586

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, 2026 and 2025

	2026	2025
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 371,071	\$ 197,496
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	142,761	141,197
Insurance recovery for fire damage	(244,293)	-
Changes in assets and liabilities:		
Accounts receivable	235	(6,660)
Other current assets	(3,395)	-
Accrued expenses	(2,221)	(1,645)
Total adjustments	(106,913)	132,892
Net cash provided by (used for) operating activities	264,158	330,388
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(243,016)	(32,480)
Proceeds from disposal of property, plant and equipment	-	8,500
Proceeds from insurance recovery for fire damage	251,080	-
Net cash provided by (used for) investing activities	8,064	(23,980)
<u>Cash flows from financing activities</u>		
Principal payments	(113,067)	(121,873)
Change in customer deposits	2,054	5,287
Net cash provided by (used for) financing activities	(111,013)	(116,586)
<u>Change in cash, cash equivalents, and restricted cash</u>	161,209	189,822
<u>Cash, cash equivalents, and restricted cash, beginning of year</u>	1,054,098	864,276
<u>Cash, cash equivalents, and restricted cash, end of year</u>	\$ 1,215,307	\$ 1,054,098
<u>Cash and cash equivalents</u>	\$ 636,468	\$ 545,780
<u>Restricted cash and cash equivalents</u>	578,839	508,318
	\$ 1,215,307	\$ 1,054,098
<u>Supplemental information</u>		
Cash paid for interest expense	\$ 56,824	\$ 61,936
Cash paid for sales tax	60,353	60,259

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, 2026 and 2025

	2026		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 136,345	\$ 90,897	\$ 227,242
Depreciation	135,623	7,138	142,761
Repairs and maintenance	169,762	8,935	178,697
Utilities	88,785	9,865	98,650
Insurance	35,381	8,845	44,226
Chemicals	37,213	-	37,213
Office Supplies	-	32,791	32,791
Payroll taxes	9,370	6,247	15,617
Travel expenses	5,189	273	5,462
Other Expenses	10,307	10,307	20,614
Supplies	4,007	445	4,452
Professional services	-	30,742	30,742
License, permits, dues, fees	3,864	3,864	7,728
Training	1,120	480	1,600
Contract labor	3,680	-	3,680
Total expenses	<u>\$ 640,646</u>	<u>\$ 210,829</u>	<u>\$ 851,475</u>

	2025		
	Program (Water) Services	Management & General	Total
Salaries, wages, and benefits	\$ 135,010	\$ 90,006	\$ 225,016
Depreciation	134,137	7,060	141,197
Repairs and maintenance	173,174	9,114	182,288
Utilities	70,433	7,826	78,259
Insurance	39,253	9,813	49,066
Chemicals	33,481	-	33,481
Office Supplies	-	18,895	18,895
Payroll taxes	9,252	6,168	15,420
Travel expenses	15,319	806	16,125
Other Expenses	11,253	11,253	22,506
Supplies	6,616	735	7,351
Professional services	-	12,223	12,223
License, permits, dues, fees	4,899	4,898	9,797
Training	140	60	200
Total expenses	<u>\$ 632,967</u>	<u>\$ 178,857</u>	<u>\$ 811,824</u>

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

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2026 and 2025

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 statements 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, 2026 and 2025.

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2026 and 2025

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. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, wages, and related payroll costs are allocated based on estimates of employee time and effort. Occupancy, utilities, insurance, depreciation, repairs and maintenance, and similar shared costs are allocated based on management's assessment of usage or another reasonable measure of the benefit received by each 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, 2026 and 2025

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, 2026, financial statements for subsequent events through August 14, 2026, 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:

	2026	2025
Cash and cash equivalents	\$ 1,215,307	\$ 1,054,098
Receivables	107,752	107,987
	<u>1,323,059</u>	<u>1,162,085</u>
Less: restricted cash for deposit accounts	(101,888)	(99,834)
Less: restricted cash for debt requirements	<u>(476,951)</u>	<u>(408,484)</u>
Available for general expenditure	<u>\$ 744,220</u>	<u>\$ 653,767</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 \$286,170 as of June 30, 2026 for the purpose of satisfying these loan covenants.

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2026 and 2025

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 ANRC 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 \$190,781 as of June 30, 2026, 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, 2026 and 2025 are \$101,888 and \$99,834, respectively.

The Organization's goal is generally to maintain financial assets to meet 180 days of operating expenses (currently approximately \$425,000). 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, 2026.

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 is as follows:

Depository	Total	Category 1	Category 2	Category 3
Bank A	\$ 1,163,368	\$ 500,000	\$ 663,368	\$ -
Bank B	69,031	69,031	-	-
Total	<u>\$ 1,232,399</u>	<u>\$ 569,031</u>	<u>\$ 663,368</u>	<u>\$ -</u>

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, 2026 and 2025

NOTE 4 – PROPERTY AND EQUIPMENT

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

	2026	2025
Land	\$ 114,261	\$ 114,261
Distribution system	5,019,505	4,872,128
Water plant facility	301,671	301,671
	5,435,437	5,288,060
Accumulated depreciation	(3,113,533)	(3,059,624)
	<u>\$ 2,321,904</u>	<u>\$ 2,228,436</u>

NOTE 5 – LONG-TERM DEBT

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

	2026	2025
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	\$ 477,666	\$ 501,749
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	438,529	453,503
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	45,487	47,436
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	-	52,998
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	331,700	350,763
	<u>\$ 1,293,382</u>	<u>\$ 1,406,449</u>

SOUTH SHERIDAN WATER ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)
June 30, 2026 and 2025

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
2027	62,460	50,728
2028	64,951	48,237
2029	67,546	45,642
2030	70,252	42,936
2031	73,072	40,116
2032-2036	412,025	153,914
2037-2041	426,433	64,620
2042-2046	116,643	9,437
2047-2051	-	-
	\$ 1,293,382	\$ 455,630

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 in any given year.

The Organization currently receives payments of \$600 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, 2026 and 2025 were \$7,200 and \$5,600, respectively.

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 obligation is shared equally between the Organization and LCWA. The accompanying financial statements include approximately \$331,700 representing the Organization's 50% share of the outstanding principal balance. Under the terms of the underlying debt agreement, the Organization may be responsible for amounts attributable to LCWA in the event of default. At June 30, 2026, the total outstanding principal balance of the jointly obligated ANRC debt was approximately \$663,400, of which approximately \$331,700 was attributable to LCWA.

SUPPLEMENTAL INFORMATION

SOUTH SHERIDAN WATER ASSOCIATION, INC.
SCHEDULE OF SYSTEM INFORMATION
For the Year Ended June 30, 2026

Number of Users	1,634
-----------------	-------

Annual billable gallons	107,581,700
-------------------------	-------------

Date of last rate study:	4/11/2025
Next required date:	April 11, 2030

Met board/council training requirements:	Yes
--	-----

Debt Service Coverage Ratio (1.05 minimum required)

Net Income (loss)	\$ 371,071
Add: Depreciation	142,761
Add: Interest expense	55,069
Subtract: Interest income	(8,270)
Subtract: Non operating income	<u>(432,159)</u>

Total	\$ 128,472
Divided by next year principal & interest	<u>\$ 113,188</u>

Debt service coverage ratio	<u><u>1.14</u></u>
-----------------------------	--------------------

Free Cash Flow Determination

Total unrestricted cash	\$ 636,468
One twelfth of total expenses	<u>70,956</u>
Excess / (deficient) cash	<u><u>\$ 565,512</u></u>

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, 2026, 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 14, 2026.

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 opinion 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 a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2026-001 that we consider to be a significant deficiency.

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
August 14, 2026

SOUTH SHERIDAN WATER ASSOCIATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2026

**Reference
Number**

Finding

2026-001

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 duties 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.