
City of Sheridan Water and Sewer Works

Audited Financial Statements

For the Years Ended December 31, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

To the Commission and Management
City of Sheridan Water and Sewer Works
Sheridan, Arkansas

Opinion

We have audited the accompanying financial statements of the City of Sheridan Water and Sewer Works as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the City of Sheridan Water and Sewer Works's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Sheridan Water and Sewer Works, as of December 31, 2025 and 2024, and the respective changes in financial position and, where applicable, cash flows thereof 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 City of Sheridan Water and Sewer Works, 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 City of Sheridan Water and Sewer Works' 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 City of Sheridan Water and Sewer Works'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 City of Sheridan Water and Sewer Works'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.

Required Supplementary Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the supplemental information for cost sharing plans on page 19 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water and Sewer System of the City of Sheridan, Arkansas and do not purport to, and do not present fairly the financial position of the City of Sheridan, Arkansas, as of December 31, 2025, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2026, on our consideration of the City of Sheridan Water and Sewer Works' 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 City of Sheridan Water and Sewer Works' 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 the City of Sheridan Water and Sewer Works' internal control over financial reporting and compliance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the miscellaneous statistical information but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Turner, Williams and Associates, P.A.

Searcy, Arkansas
July 29, 2026

City of Sheridan Water and Sewer Works
Statement of Net Position
December 31, 2025 and 2024

Assets and Deferred Outflows of Resources

	<u>2025</u>	<u>2024</u>
Current Assets:		
Cash	\$ 904,422	\$ 771,103
Certificates of deposit	282,827	271,201
Accounts receivable	234,901	213,017
Accounts receivable- other	150,074	150,074
Accrued interest receivable	282	282
Inventories	127,240	129,034
Prepays & other assets	5,029	5,029
Total Current Assets	<u>1,704,775</u>	<u>1,539,740</u>
Property, Plant, and Equipment:		
Property, plant, and equipment, net	<u>3,133,245</u>	<u>2,946,089</u>
Total Property, Plant, and Equipment	<u>3,133,245</u>	<u>2,946,089</u>
Other Assets:		
Lease receivable	<u>514,023</u>	<u>519,923</u>
Total Other Assets	<u>514,023</u>	<u>519,923</u>
Restricted Assets:		
Cash and cash equivalents	<u>176,561</u>	<u>163,124</u>
Total Restricted Assets	<u>176,561</u>	<u>163,124</u>
Total Assets	<u>5,528,604</u>	<u>5,168,876</u>
Deferred Outflows of Resources:		
Deferred outflows of resources related to pension	<u>159,953</u>	<u>281,226</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,688,557</u>	<u>\$ 5,450,102</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities:		
Accounts payable	\$ 126,147	\$ 101,997
Customer meter deposits	176,561	163,124
Total Current Liabilities	<u>302,708</u>	<u>265,121</u>
Long-term Liabilities:		
Net pension liability	<u>356,609</u>	<u>470,528</u>
Total Long-term Liabilities	<u>356,609</u>	<u>470,528</u>
Total Liabilities	<u>659,317</u>	<u>735,649</u>
Deferred Inflows of Resources		
Deferred inflows of resources related to pension	130,198	158,482
Deferred inflows of resources related to lease	514,023	519,923
Total Deferred Inflows of Resources	<u>644,221</u>	<u>678,405</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,303,538</u>	<u>1,414,054</u>
Net Position:		
Net investment in capital assets	3,133,245	2,946,089
Unrestricted	<u>1,251,774</u>	<u>1,089,959</u>
Total Net Position	<u>4,385,019</u>	<u>4,036,048</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 5,688,557</u>	<u>\$ 5,450,102</u>

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

City of Sheridan Water and Sewer Works
Statement of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Water revenue	\$ 1,008,774	\$ 770,895
Sewer revenue	573,212	560,035
Service charges and penalties	35,315	37,713
Other revenue	45,543	40,025
Connection fees	<u>2,450</u>	<u>3,220</u>
Total Operating Revenues	<u>1,665,294</u>	<u>1,411,888</u>
Operating Expenses		
Bad debts	3,102	-
Depreciation	220,468	213,342
Engineering fees	3,691	390
Equipment and truck expense	42,967	26,662
Insurance	83,486	88,866
Legal and accounting	33,855	17,549
Materials and supplies	71,683	88,080
Miscellaneous expense	16,705	14,734
Office supplies and expenses	13,092	6,944
Postage	10,606	9,886
Repairs and maintenance	96,919	160,172
Retirement expense	46,264	38,255
Salaries, payroll taxes and fringe benefits	494,968	477,094
Sewer lab fees	14,735	16,252
Contracted services	240	3,250
Utilities	<u>137,106</u>	<u>114,737</u>
Total Operating Expenses	<u>1,289,887</u>	<u>1,276,213</u>
Net Operating Income (Loss)	<u>375,407</u>	<u>135,675</u>
Non-Operating Revenue/(Expense)		
Interest income	<u>30,314</u>	<u>27,166</u>
Total Non-Operating Revenue/(Expense)	<u>30,314</u>	<u>27,166</u>
Increase (decrease) in net position	405,721	162,841
Transfers to City of Sheridan - General Fund	(56,750)	(57,000)
Net position at beginning of year	4,036,048	3,930,207
Net position at end of year	<u>\$ 4,385,019</u>	<u>\$ 4,036,048</u>

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

City of Sheridan Water and Sewer Works
Statement of Cash Flows
December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Receipts from customers	\$ 1,614,103	\$ 1,371,372
Receipts from other	45,543	40,025
Payment to suppliers	(545,167)	(586,410)
Payment for contracted services	(240)	(3,250)
Payment to employees	<u>(521,797)</u>	<u>(508,656)</u>
Net cash provided (used) by operating activities	<u>592,442</u>	<u>313,081</u>
Cash flows from capital and related financing activities:		
Transfer to General Fund, City of Sheridan	(56,750)	(57,000)
Purchase of capital assets	<u>(407,624)</u>	<u>(75,757)</u>
Net cash provided (used) by capital and related financing activities	<u>(464,374)</u>	<u>(132,757)</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(11,626)	(8,981)
Interest income	<u>30,314</u>	<u>27,166</u>
Net cash provided (used) by investing activities	<u>18,688</u>	<u>18,185</u>
Net increase (decrease) in cash and cash equivalents	146,756	198,509
Cash and cash equivalents at beginning of year	<u>934,227</u>	<u>735,718</u>
Cash and cash equivalents at end of year	<u>\$ 1,080,983</u>	<u>\$ 934,227</u>
Reconciliation of operating income/(loss) to net cash provided /(used) by operating activities		
Operating income/(loss)	\$ 375,407	\$ 135,675
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	220,468	213,342
Change in assets and liabilities:		
Accounts and interest receivables, net	(15,984)	(32,464)
Inventory	1,794	(12,110)
Prepays	-	24,808
Accounts payable	24,150	8,227
Net pension liability	(113,919)	(51,140)
Deferred outflows of resources	121,273	(116,622)
Deferred inflows of resources	(34,184)	136,200
Customer deposits	<u>13,437</u>	<u>7,165</u>
Net cash provided (used) by operating activities	<u>\$ 592,442</u>	<u>\$ 313,081</u>
Reconciliation:		
Unrestricted cash and cash equivalents	\$ 904,422	\$ 771,103
Restricted cash and cash equivalents	<u>176,561</u>	<u>163,124</u>
Cash and cash equivalents at end of year	<u>\$ 1,080,983</u>	<u>\$ 934,227</u>

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

1) NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The City of Sheridan Water and Sewer Works (the System), and enterprise fund of the City of Sheridan, Arkansas, is a municipal enterprise providing water and sewer services to approximately 2,300 customers within and around the City of Sheridan. The System is a proprietary fund within the organization of the City of Sheridan and is considered to be an enterprise fund of the City of Sheridan.

The accounting system is organized and operated on a fund basis. A fund is defined set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Basis of Accounting

The financial statements of the System are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) as applicable to enterprise systems of governmental entities using the economic resources measurement focus and the accrual basis of accounting. An enterprise system is a proprietary system type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing US GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. In the system financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate.

The proprietary system utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary system equity is classified as net assets.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the System's policy is to first apply the expense toward restricted resources, if restrictions have been met, and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

Adoption of New Accounting Standard

On January 1, 2022, the Authority adopted GASB Accounting Standards Statement 87, Leases, which improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognizing as inflows or outflows of resources based on payment provisions. The Authority had one lease subject to the new standards and the impact to net position and revenues as a result of applying GASB 87 for the year ended December 31, 2025 is described in footnote 9.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the System considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The estimated fair values of the System's short-term financial instruments, including receivables and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Accounts Receivable

Accounts receivables include amounts due from residents for water and sewer services. All receivables are current and therefore due within one year. Receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. Allowances are reported when accounts are proven to be uncollectible. As of December 31, 2025, the allowance for doubtful accounts was \$3,102. As of December 31, 2024, all accounts were deemed to be collectible, therefore no allowance was necessary.

Customers are billed on a monthly billing cycle by the System based on actual or estimated meter readings. The System recognizes unbilled accounts receivable for services provided prior to year-end that are billed during the following year.

Sales of water and sewer services are made on an open account to customers located in Sheridan, Arkansas, and are collateralized to the extent of each customer's meter deposit.

Inventories

A portion of the materials and supplies inventories are reported at the lower of cost or market, determined by using the first-in, first-out method. The remaining inventory is carried at market value as of December 31, 2025 as management believes this valuation is closer to lower of cost or market as original cost of some items could not be determined.

Property and Equipment

Acquisitions of property and equipment in excess of \$2,500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Interest expenditures incurred on construction projects are capitalized as a cost of construction. Major improvements or betterments to property accounts are capitalized. Maintenance and repairs which do not extend the lives of the applicable assets are charged to the expense as incurred. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the property accounts and any resulting gain or loss is regarded in income. Depreciation is computed using primarily the straight-line method over the following estimated useful lives:

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

<u>Asset</u>	<u>Useful Life</u>
Water and sewer plant	20-50 years
Buildings and building improvements	5-40 years
Equipment	5-10 years

Depreciation expense was \$220,468 and \$213,342 for the years ended December 31, 2025 and 2024, respectively.

Sales Taxes

Sales taxes charged to the System's customers are recorded as accounts receivable and sales tax payable when charged to customer. When these amounts are remitted to the appropriate taxing authority, the sales tax payable is reduced. When the customer pays the bill the accounts receivable is reduced.

Net Position Classifications

GASB requires the classification of net position into three classifications defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent capital-related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consist of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component consists of net position that do not meet the definition of "net investment in capital assets," or "restricted".

Revenue Recognition

Revenues for water and sewer services are recognized in the period during which the related services are provided. The System's revenue is derived primarily from water and sewer services. Revenue is recognized on the accrual basis and is recorded as services are provided. Revenue from services provided is considered operating revenue. Non-operating revenues consist of interest income, grant systems and miscellaneous income. Accounts receivable and revenues reported on the System's financial statements include an estimate of charges for services provided but unbilled at year end.

Grant Revenue

Resources from capital grants are reported as temporarily restricted net position. When a grant restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the statement of revenues, expenses and changes in net position as net assets released from restrictions. There was no grant revenue for the years ended December 31, 2025 or 2024.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

Income Taxes

The System is not subject to income taxes and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated all tax positions and determined that the System does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. The System does not file federal income tax returns.

Compensated Absences

It is the System's policy to recognize compensated absences when paid. The System requires all leave to be used in the year it was earned. Accordingly, no liability is reported for the years December 31, 2025 and 2024.

Reclassifications

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

Subsequent Events

Management has evaluated subsequent events through July 29, 2026, the date which the financial statements were available to be issued.

2) CONCENTRATIONS OF CREDIT

The City of Sheridan Water and Sewer Works maintains cash balances at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. At December 31, 2025 and 2024, cash balances that exceed FDIC coverage have collateral pledged to the cover the cash balances.

3) DEPOSITS

At December 31, 2025 and 2024, cash balances exceed the FDIC coverage and collateral was pledged to the System. The table presented below is designed to disclose the level of custody credit risk assumed by the System based upon how its deposits were insured or secured with collateral at December 31, 2025 and 2024. The categories of credit risk are defined as follows:

Category 1- Insured by FDIC or collateralized with securities held by the System (or public trust) or by its agents in its name.

Category 2- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution's trust system or agent in the System's name.

Category 3- Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust system or agent but not in the System's name; or collateralized with no written or approved collateralized agreement.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

The System's bank balances by category were as follows:

	<u>2025</u>	<u>2024</u>
Category 1	\$ 500,000	\$ 500,000
Category 2	896,109	767,288
Category 3	-	-
	<u>\$ 1,396,109</u>	<u>\$ 1,267,288</u>

The carrying values of deposits (including certificates of deposit) are included in the following balance sheet accounts as follows:

	<u>2025</u>	<u>2024</u>
Cash		
Unrestricted	\$ 904,422	\$ 771,103
Restricted	176,561	163,124
	<u>\$ 1,080,983</u>	<u>\$ 934,227</u>
Certificates of deposit	\$ 282,827	\$ 271,201
	<u>\$ 1,363,810</u>	<u>\$ 1,205,428</u>

4) RESTRICTED ASSETS

Restricted assets at December 31, 2025 and 2024, are as follows:

	<u>2025</u>	<u>2024</u>
Meter deposits	\$ 176,561	\$ 163,124
Total restricted assets	<u>\$ 176,561</u>	<u>\$ 163,124</u>

5) PROPERTY AND EQUIPMENT

The following is a summary of property and equipment:

	<u>2024</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>2025</u>
Land	\$ 225,285	\$ -	\$ -	\$ -	\$ 225,285
Building and improvements	404,172	-	-	-	404,172
Water and sewer System	8,223,901	407,624	-	-	8,631,525
Construction in progress	-	-	-	-	-
	8,853,358	407,624	-	-	9,260,982
Accumulated depreciation	(5,907,269)	(220,468)	-	-	(6,127,737)
Net property and equipment	<u>\$ 2,946,089</u>	<u>\$ 187,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,133,245</u>

	<u>2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>2024</u>
Land	\$ 222,406	\$ 2,879	\$ -	\$ -	\$ 225,285
Building and improvements	399,360	4,812	-	-	404,172
Water and sewer System	7,533,241	68,066	-	622,594	8,223,901
Construction in progress	622,594	-	-	(622,594)	-
	8,777,601	75,757	-	-	8,853,358
Accumulated depreciation	(5,693,927)	(213,342)	-	-	(5,907,269)
Net property and equipment	<u>\$ 3,083,674</u>	<u>\$ (137,585)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,946,089</u>

6) RETIREMENT PLAN

Plan Description

The System participates in the Arkansas Public Employees Retirement Systems (APERS). APERS is a cost-sharing, multiple employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the Department is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The System contributes an actuarially determined amount to the plan, which was 15.32% of annual covered payroll for the years ending December 31, 2025 and 2024. Contributions made by the System were \$62,314 and \$65,815 for the years ended December 31, 2025 and 2024, respectively. There were 10 employees covered by the plan at December 31, 2025.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2007	2.03%
Contributory, on or after 7/1/2007	2.00%
Non- Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service,
- At any age with 28 years actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005),
- At age 55 with 35 years of credited service for elected or public safety officials

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

The normal retirement benefit amount, paid on a monthly basis is determined by the member's final average salary and years of service. A member may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Beginning July 1, 2022, the member contribution rate will increase in increments of 0.25% per year until it reaches the maximum 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2025. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability was measured as of June 30, 2025, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The System's proportion of the Net Pension Liability was .01699119% (14.552523% of the City's proportion of .11675766%) at June 30, 2025.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

Actuarial Assumptions

The total pension liability in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed (Level Dollar, Closed For District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	14 years (4.6 years for District Judges New Plan/Paid Off Old Plan and 12 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)

Actuarial Assumptions:

Investment Rate of Return	7.15% (7.00% for District Judges still paying old plan)
Inflation	3.25% wage inflation and 2.5% price inflation
Salary Increases	3.25%-9.85% including inflation (3.25%-6.96% including inflation for District Judges)
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017
Average Service Life of All Members	3.613
Notes	None

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

Long-Term Expected Return on Plan Assets

The APERS's policy in regard to allocation of its invested assets was established by the Board and is reviewed at least annually to determine if the asset allocation is consistent with an acceptable level of risk and volatility.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2025 to 2034 were based upon capital market assumptions provided by the System's investment consultants. For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2025, these best estimates are summarized in the following table:

Asset Class	Current Allocation	Long- Term Expected Real Rate of Return
Broad Domestic Equity	39%	5.14%
International Equity	17%	5.97%
Real Assets	16%	5.00%
Private Equity	5%	8.77%
Hedge Funds	2%	3.58%
Domestic Fixed	21%	3.26%
Total	100%	
Total Real Rate of Return		5.02%
Plus: Price Inflation - Actuary's Assumption		2.50%
Less: Investment Expenses (Passive)		0.00%
Net Expected Return		7.52%

For the year ended June 30, 2025, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

Sensitivity of the Net Pension Liability to Changes to the Single Discount Rate Assumption

The following presents the System's net pension liability, calculated using the current discount rate, as well as what the participating employers' net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

	1% Lower than Discount Rate (6.00%)	Current Rate (7.00%)	1% Higher than Current Rate (8.00%)
Net Pension Liability	\$665,483	\$356,609	\$101,909

Pension Expense, and Deferred Inflow/Outflows of Resources related to Pensions

The System's proportionate share of pension income was \$5,918 as of the measurement date of June 30, 2025. At December 31, 2025 and 2024, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	2025	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,048	\$ 10,708
Changes due to proportion	39,644	28,433
Changes in assumptions	6,188	-
Net difference between projected and actual earnings on pension plan investments	67,401	91,057
System contributions subsequent to measurement date	<u>35,672</u>	<u>-</u>
Total	<u>\$ 159,953</u>	<u>\$ 130,198</u>

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

	2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,260	\$ 19,238
Changes due to proportion	67,172	2,862
Changes in assumptions	16,398	-
Net difference between projected and actual earnings on pension plan investments	150,032	136,382
System contributions subsequent to measurement date	29,364	-
Total	<u>\$ 281,226</u>	<u>\$ 158,482</u>

\$35,672 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2025. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Net Increase (Decrease) in Pension Expense
2026	\$ 16,356
2027	(10,168)
2028	(7,581)
2029	(4,525)
2030	-
Total	<u>\$ (5,918)</u>

7) RISK MANAGEMENT

The City of Sheridan Water and Sewer Works is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The System carries commercial insurance for risks of loss, including property and casualty insurance, worker's compensation, employee and health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years and there has been no significant reduction in the amount of coverage provided.

City of Sheridan Water and Sewer Works
Notes to the Financial Statements
December 31, 2025 and 2024

8) CHANGES IN NET POSITION

The changes in net position are as follows:	Invested in Capital assets	Unrestricted	Restricted	Total
Net position at December 31, 2023	\$ 3,083,674	\$ 846,533	\$ -	\$ 3,930,207
Net increase in net position	-	162,841	-	162,841
Transfer to city	-	(57,000)	-	(57,000)
Transfers	(137,585)	137,585	-	-
Net position at December 31, 2024	\$ 2,946,089	\$ 1,089,959	\$ -	\$ 4,036,048
Net increase in net position	-	405,721	-	405,721
Transfer to city	-	(56,750)	-	(56,750)
Transfers	187,156	(187,156)	-	-
Net position at December 31, 2025	\$ 3,133,245	\$ 1,251,774	\$ -	\$ 4,385,019

9) LEASE

On July 12, 1993, the City of Sheridan Water and Sewer Works, as lessor, entered into an agreement with American Towers, LLC (the "tenant"), the lessee, for the right to install an antenna on the lessor's water tower. The current lease is scheduled to expire on July 11, 2033 assuming the exercise by the tenant of all remaining renewal options and contains an option to extend the lease for each of six additional five year renewal terms. The lease will be automatically renewed upon the same terms for the six additional five year terms. The tenant may terminate the lease prior to the new renewal periods with sixty days prior written notice to the other party. The Department is reasonably certain that the lessee will renew this lease for all extension terms. In accordance with GASBS No. 87, the lease was retroactively measured as of May 2017 with a lease term of twenty-six years and one months and an interest rate of 1.00%, the Department's incremental borrowing rate.

Rent is payable annually with rent increases by 2% at each annual anniversary. The Department collected \$11,100 from the tenant for the year ended December 31, 2025, which includes \$5,901 in lease revenue and \$5,199 in lease interest revenue.

Required Supplemental Information for Cost-Sharing Employer Plans

City of Sheridan Water and Sewer Works
Required Supplemental Information for Cost-Sharing Employer Plans
Arkansas Public Employee Retirement System

For the Year Ended December 31, 2025:

Schedule of System's Proportionate Share of the Net Pension Liability

	6/30/2025	6/30/2024	6/30/2023	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
System's proportion of the net pension liability	0.01699119%	0.08910090%	0.01790097%	0.01657204%	0.01681766%	0.01663311%	0.01676324%	0.01474167%	0.01615326%	0.01708738%
System's proportionate share of the net pension liability	\$ 356,609	\$ 470,528	\$ 521,668	\$ 446,846	\$ 129,300	\$ 476,303	\$ 404,418	\$ 325,192	\$ 417,423	\$ 408,619
System's covered-employee payroll	\$ 441,685	\$ 412,743	\$ 396,760	\$ 346,405	\$ 335,829	\$ 324,541	\$ 315,230	\$ 296,846	\$ 310,254	\$ 293,816
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	80.74%	114.00%	131.48%	129.00%	38.50%	146.76%	128.29%	109.55%	134.54%	139.07%
Plan fiduciary net position as a percentage of the total pension liability	85.04%	81.61%	77.94%	78.31%	75.38%	75.38%	78.55%	79.59%	75.65%	75.50%
APERS discount rate	7.00%	7.00%	7.00%	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%	7.50%

This schedule is presented to illustrate the requirement to show information for 10 years. Information has been determined as of the measurement date (June 30).

Schedule of Required Contributions

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 62,314	\$ 65,815	\$ 69,188	\$ 58,842	\$ 51,473	\$ 50,249	\$ 48,551	\$ 45,253	\$ 41,488	\$ 44,728
Contributions in relation to the contractually required contribution	(62,314)	(65,815)	(69,188)	(58,842)	(51,473)	(50,249)	(48,551)	(45,253)	(41,488)	(44,728)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered-employee payroll	\$ 406,749	\$ 429,602	\$ 451,619	\$ 383,537	\$ 334,809	\$ 328,869	\$ 316,913	\$ 280,693	\$ 275,233	\$ 273,231
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.34%	15.37%	15.28%	15.32%	16.12%	15.07%	16.37%

This schedule is presented to illustrate the requirement to show information for 10 years. Information has been determined as of the System's most recent fiscal year-end (December 31).

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

Supplemental Information

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 Committee and Management
City of Sheridan Water and Sewer Works
Sheridan, Arkansas

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 City of Sheridan Water and Sewer Works, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the City of Sheridan Water and Sewer Works' basic financial statements and have issued our report thereon dated July 29, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sheridan Water and Sewer Works' 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 City of Sheridan Water and Sewer Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sheridan Water and Sewer Works' 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2025-1 and 2025-2 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sheridan Water and Sewer Works' 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*.

City of Sheridan Water and Sewer Works's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Sheridan Water and Sewer Works' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Sheridan Water and Sewer Works' 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.

Turner, Williams and Associates, P.A.

Turner, Williams & Associates, P.A.

Searcy, Arkansas

July 29, 2026

City of Sheridan Water and Sewer Works
Miscellaneous Statistical Information
(Unaudited)
Year Ended December 31, 2025

Calculation of Cost of Water Sold per 1,000 Gallons

Total Costs Allocated to Water Operations	\$ 1,116,873
Number of Gallons Sold (in Thousands)	<u>139,082</u>
2025 Cost per 1,000 Gallons - Water	<u><u>\$ 8.03</u></u>

	Water Cost per 1,000 Gallons	Percent Change from Preceding Year	Amount of Change from Preceding Year
2025	\$ 8.03	46.54%	2.55
2024	5.48	-3.18%	(0.18)
2023	5.66	-0.28%	(0.02)
2022	5.68	36.12%	1.51
2021	4.17	-1.42%	(0.06)
2020	4.23	-3.64%	(0.16)
2019	4.39	22.28%	0.80
2018	3.59	-14.52%	(0.61)
2017	4.20	-2.10%	(0.09)
2016	4.29	18.18%	0.66
2015	3.63	-4.22%	(0.16)
2014	3.79	0.26%	0.01
2013	3.78	0.80%	0.03
2012	3.75	4.17%	0.15
2011	3.60	10.77%	0.35

City of Sheridan Water and Sewer Works
Miscellaneous Statistical Information (Continued)
(Unaudited)

Year Ended December 31, 2025

Calculation of Cost of Water Used by Sewer Operations per 1,000 Gallons

Total Costs Allocated to Sewer Operations	\$ 333,274
Number of Gallons Used (in Thousands)	<u>97,043</u>
2025 Cost per 1,000 Gallons - Sewer	<u><u>\$ 3.43</u></u>

	Sewer Cost per 1,000 Gallons	Percent Change from Preceding Year	Amount of Change from Preceding Year
2025	\$ 3.43	76.12%	1.48
2024	1.95	-3.47%	(0.07)
2023	2.02	-0.54%	(0.01)
2022	2.03	5.78%	0.11
2021	1.92	-30.94%	(0.86)
2020	2.78	28.70%	0.62
2019	2.16	27.06%	0.46
2018	1.70	18.06%	0.26
2017	1.44	-12.20%	(0.20)
2016	1.64	20.59%	0.28
2015	1.36	7.94%	0.10
2014	1.26	9.57%	0.11
2013	1.15	7.48%	0.08
2012	1.07	-20.15%	(0.27)
2011	1.34	4.69%	0.06

City of Sheridan Water and Sewer Works
Schedule of Audit Findings and Responses
December 31, 2025

2025-1

Finding: The System has not segregated financial accounting duties among appropriate employees to provide reasonable assurance about the achievement of the System's objectives with regard to reliability of financial reporting.

Response: The System is aware of the deficiency and will continue to mitigate the deficiency with increased oversight by the governing body.

2025-2

Finding: In performing our test work, numerous adjusting entries were required during the 2025 audit in order to present the System's financial statements in accordance with generally accepted accounting principles (GAAP). The System does not have a process in place to ensure accounting records are in accordance with GAAP. This caused many accounts within the System's financial statements to be misstated. We recommend the System establish a formal closing checklist (monthly and annually) to document entries, reversing entries, and reconciliations that should be performed. In addition, at the completion of the audit, all required entries should be posted to the accounting software to ensure the System's final trial balance agrees to the audited trial balance.

Response: Management will establish and implement a closing checklist for the monthly and annual closing processes to ensure the books are closed properly.