

TILLAR WATER AND SEWER SYSTEM
FINANCIAL STATEMENTS
December 31, 2025

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SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Legislative Joint Auditing Committee
And Arkansas Natural Resources Commission

We have performed the procedures enumerated below for the Tillar Water and Sewer System, ("the System"), for the year ended December 31, 2025. The System's management is responsible for accounting records.

The System has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of satisfying annual reporting requirements of the Arkansas Division of Legislative Audit. Additionally, the Arkansas Legislative Joint Auditing Committee has agreed to and acknowledged that the procedures performed are appropriate for their purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

Cash and Investments

1. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
2. Confirm with depository institutions the cash on deposit and investments.
3. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

Findings: No findings identified.

Receipts

1. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
2. Agree 10 customer payments on the accounts receivable sub-ledger to deposit and billing documents.
3. For one deposit, agree the cash/check composition of the deposit with receipt information.

Findings: No findings identified.

Accounts Receivable

1. Agree 10 customer billings to the accounts receivable sub-ledger.
2. Determine that five (5) customer adjustments were properly authorized.

Findings: *No findings identified.*

Disbursements

1. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$500, whichever is greater.
2. Analyze all property, plant, and equipment disbursements.
3. Select all disbursements paid to employees other than payroll and ten other disbursements and determine if they were adequately documented.

Findings: *No findings identified.*

Property, Plant, and Equipment

1. Determine that additions and disposals were properly accounted for in the records. (Materiality level - 5% of total equipment or \$500, whichever is greater.)

Findings: *No findings identified.*

Long-Term Debt

1. Schedule long-term debt and verify changes in all balances for the year.
2. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
3. Determine that the appropriate debt service accounts have been established and maintained.

Findings: *No findings identified.*

General

1. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

Findings: *No findings identified.*

We were engaged by the System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the System, Arkansas Legislative Joint Auditing Committee and is not intended to be and should not be used by anyone other than those specified parties.

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

Monticello, Arkansas
September 15, 2026

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the City Council of
Tillar Water and Sewer System

Management is responsible for the accompanying financial statements of Tillar Water and Sewer System, which comprise the statement of net position as of December 31, 2025, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has omitted the Management's Discussion and Analysis required by accounting principles generally accepted in the United States of America 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 consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic or historical context.



Monticello, Arkansas
September 15, 2026

**TILLAR WATER AND SEWER SYSTEM
STATEMENT OF NET POSITION**

December 31, 2025

	<u>2025</u>
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 140,684
Accounts receivable	13,394
Total current assets	<u>154,078</u>
<u>Restricted cash and investments</u>	
Meter deposits	8,590
Certificates of Deposit	60,000
Debt reserve funds	154,358
Total restricted cash and investments	<u>222,948</u>
Fixed assets, net of accumulated depreciation	<u>2,551,372</u>
Total assets	<u><u>\$ 2,928,398</u></u>
<u>Liabilities and Net Position</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 3,351
Current portion of bonds payable	2,729
Total current liabilities	<u>6,080</u>
<u>Long term liabilities</u>	
Bonds payable, net of current amount	955,565
Customer deposits	8,590
Total long term liabilities	<u>964,155</u>
<u>Net position</u>	
Net investment in capital assets	1,593,078
Restricted	214,358
Unrestricted	150,727
Total net position	<u>1,958,163</u>
Total liabilities and net position	<u><u>\$ 2,928,398</u></u>

See Independent Accountant's Compilation Report.

TILLAR WATER AND SEWER SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2025

	Water	Sewer	Total
<u>Operating revenues</u>			
Water sales	\$ 64,563	\$ 53,275	\$ 117,838
Other operating revenue	633	-	633
Total operating revenue	65,196	53,275	118,471
<u>Operating expenses</u>			
Salaries	2,619	1,662	4,281
Payroll Taxes	200	127	327
Depreciation	69,969	-	69,969
Utilities	7,188	3,197	10,385
Auto Expense	1,391	-	1,391
Reparis and Maintenance	3,109	70	3,179
Dues and Subscriptions	750	-	750
Operating Supplies	2,790	2,848	5,638
Fees	8,693	-	8,693
Office Supplies	2,359	1,052	3,411
License & Permits	1,912	-	1,912
Contract Labor	18,600	12,400	31,000
Total operating expenses	119,580	21,356	140,936
Net operating income / (loss)	(54,384)	31,919	(22,465)
<u>Other revenue / (expenses)</u>			
Interest income			492
Grant revenue			358,575
Interest expense			(10,250)
Total other revenue / (expenses)			348,817
<u>Net increase/(decrease) in net position</u>			\$ 326,352
Beginning net position			1,631,811
Ending net position			\$ 1,958,163

See Independent Accountant's Compilation Report.

TILLAR WATER AND SEWER SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 118,694
Payments for salaries and benefits	(4,608)
Payments for operating and administrative expenses	(66,360)
Net cash provided by (used for) operating activities	<u>47,726</u>
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	(12,000)
Purchase of certificates of deposit	(60,000)
Interest income	492
Net cash provided by (used for) investing activities	<u>(71,508)</u>
<u>Cash flows from financing activities</u>	
Proceeds from debt issuance	-
Proceeds from capital grants	628,600
Purchase of capital assets with grant proceeds	(628,600)
Principal payments on debt	(2,618)
Interest payments	(10,250)
Change in customer deposits	-
Net cash provided by (used for) financing activities	<u>(12,868)</u>
<u>Change in cash and cash equivalents</u>	(36,650)
<u>Cash and cash equivalents, beginning of year</u>	<u>340,282</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 303,632</u>
 <u>Cash and cash equivalents</u>	 140,684
<u>Restricted cash and cash equivalents</u>	<u>162,948</u>
	<u>\$ 303,632</u>

See Independent Accountant's Compilation Report.

TILLAR WATER AND SEWER SYSTEM
STATEMENT OF CASH FLOWS (continued)
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Reconciliation of operating income to</u>	
<u>net cash from operating activities:</u>	
Operating income (loss)	<u>\$ (22,465)</u>
Adjustments to reconcile operating income to	
net cash from operating activities:	
Depreciation	69,969
Changes in assets and liabilities:	
Accounts receivable - operating	223
Accounts payable - operating	<u>(1)</u>
Total adjustments	70,191
Net cash provided by (used for) operating activities	<u>\$ 47,726</u>

See Independent Accountant's Compilation Report.

**TILLAR WATER AND SEWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

Tillar Water and Sewer System, (the “Organization”), is a component unit of the Town of Tillar, Arkansas. The Organization is governed by the City Council. The Organization provides water and sewer services to the Town of Tillar and certain surrounding areas. The City Council approves the rate changes of the Organization’s services. The debt of the Organization is maintained in the name of the Town of Tillar.

B. Fund Type

The Organization is an enterprise fund, used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flow.

Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the Organization. All revenues and expenses not meeting this definition are reported as other revenues (expenses) but remain a major component of the overall revenues and expenses of the Organization.

In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, the Organization applies accounting standards in accordance with the Codification of Governmental Accounting and Financial Reporting Standards which incorporates applicable Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements issued on or before November 30, 1989.

D. Use of Estimate

Management used estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

TILLAR WATER AND SEWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2025

NOTE 1 (continued)

E. Assets, Liabilities, and Net Position

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, and money market accounts are considered to be cash and cash equivalents.

Accounts Receivable

Account receivables relate to water service billings and are shown net of an allowance for doubtful accounts. 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.

Fixed Assets

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

Water Plant	20-40 years
Wells & Water Tanks	20-40 years
Buildings & Improvements	20-25 years
Vehicles & Equipment	5-10 years

The Organization's capitalization policy states that capital assets are defined as assets with an estimated useful life of greater than one year and over \$5,000.

Net Position Classifications

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.
- Unrestricted net position – All other net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

TILLAR WATER AND SEWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2025

NOTE 1 (continued)

F. Date of Management's Review

The Organization evaluated its December 31, 2025 financial statements for subsequent events through September 15, 2026, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

Arkansas Code Annotated 19-1-501 outlines the eligible investments allowed by a municipality along with Certificates of Deposits when secured in compliance with Arkansas Code 19-8-202. Deposits in excess of Federal Deposit Insurance (FDIC) are required to be secured by qualified pledged securities allowed by the Code to mitigate custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it.

The schedule below is designed to disclose the level of custodial credit risk assumed by the Organization based upon how its deposits were insured or secured by pledged securities, or unsecured at December 31, 2025.

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 Organization in the Organization's name.

Category 3 – Unsecured and uncollateralized, or collateralized with securities held by the pledging institution, or by its trust Organization 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	\$ 363,620	\$ 363,620	\$ -	\$ -
Total	\$ 363,620	\$ 363,620	\$ -	\$ -

The amounts shown are bank ledger balances of the referenced bank's deposits and may differ from the Organization's general ledger balances. It is the Organization's policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

TILLAR WATER AND SEWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2025

NOTE 3 – CHANGES IN FIXED ASSETS

	Balance December 31, 2024	Transfers	Additions	Disposals	Balance December 31, 2025
Water & sewer system	\$ 374,925	\$ 2,030,475	\$ 370,575	\$ -	\$ 2,775,975
Construction in progress	2,030,475	(2,030,475)	-	-	-
	<u>2,405,400</u>	<u>-</u>	<u>370,575</u>	<u>-</u>	<u>2,775,975</u>
Accumulated depreciation	(154,634)	-	(69,969)	-	(224,603)
	<u>\$ 2,250,766</u>	<u>\$ -</u>	<u>\$ 300,606</u>	<u>\$ -</u>	<u>\$ 2,551,372</u>

NOTE 4 – LONG-TERM DEBT

2024 ADFA bond debt

In 2024, the Organization issued \$869,310 in Revenue bonds in order to finance the construction of improvements to the wastewater treatment facility. The interest rate per annum is 0.75% and the service fee per annum is 1.00%. The proceeds of were used to pay bond issuance costs, engineering fees, and construction costs. System revenues and assets are pledged. The Organization is required to establish rates sufficient to pay the ongoing operation and maintenance of the water system, and monthly deposits into a depreciation account of 5% of gross monthly revenue from the preceding month until a total of \$86,931 has accumulated for expected future costs of replacement and repairs to the system.

The Organization was in compliance with all debt covenants for the year ended December 31, 2025.

2007 USDA bond debt

In 2007, the Organization issued \$122,600 in Revenue bonds in order to finance the construction of improvements. The United States Department of Agriculture ("USDA") simultaneously purchased the bond and issued a 40-year note. The interest rate on the note payable is 4.125%. The proceeds of were used to pay bond issuance costs, engineering fees, and construction costs. System revenues and assets are pledged to the note payable. The Organization is required to establish rates sufficient to pay the ongoing operation and maintenance of the water system, monthly deposits into a debt service account of \$529 a month until a total of \$69,500 has accumulated for the expected future costs of replacement and repairs to the system.

The Organization was in compliance with all debt covenants for the year ended December 31, 2025.

TILLAR WATER AND SEWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2025

NOTE 4 (continued)

The following is a summary of changes in long-term debt payable:

	Balance December 31, 2024	Increases	Decreases	Balance December 31, 2025	Amounts Due Within One Year
2007 USDA Bond Payable	\$ 91,602	\$ -	\$ (2,618)	\$ 88,984	\$ 2,729
2024 ADFA Bond Payable	869,310	-	-	869,310	-
Bonds payable, total	<u>\$ 960,912</u>	<u>\$ -</u>	<u>\$ (2,618)</u>	<u>\$ 958,294</u>	<u>\$ 2,729</u>

Total principal and interest maturities of the Organization's long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2026	\$ 2,729	\$ 18,832	\$ 21,561
2027	30,253	14,755	45,008
2028	40,072	17,822	57,894
2029	40,852	17,043	57,895
2030	41,648	16,247	57,895
2031-2035	220,796	68,675	289,471
2036-2040	243,473	45,998	289,471
2041-2045	268,794	20,676	289,470
2046-2050	69,677	876	70,553
Therafter	-	-	-
	<u>\$ 958,294</u>	<u>\$ 220,924</u>	<u>\$ 1,179,218</u>

NOTE 5 – RISK MANAGEMENT

The Organization is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

SUPPLEMENTARY INFORMATION

TILLAR WATER AND SEWER SYSTEM
SCHEDULE OF SYSTEM INFORMATION
For the Year Ended December 31, 2025

Number of Water Users	151
Number of Sewer Users	98
Annual billable gallons of water	17,509,300
Date of last rate study:	1-Jan-24
Next required date:	1-Jan-29
Met the Board/Council training requirements:	Yes
Debt Service Coverage Ratio (1.05 minimum required)	
Net Income (loss)	\$ 326,352
Add: Depreciation	69,969
Add: Interest expense	10,250
Subtract: Interest income	(492)
Subtract: Non operating income	<u>(358,575)</u>
Total	\$ 47,504
Divided by next year principal & interest	<u>21,561</u>
Debt service coverage ratio	<u><u>\$ 2.20</u></u>
Free Cash Flow Determination	
Total unrestricted cash	\$ 140,684
One twelfth of total expenses	<u>(11,745)</u>
Excess / (deficient) cash	<u><u>\$ 128,939</u></u>

TILLAR WATER AND SEWER SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2025

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Accrued (Deferred)	Cash Receipts	Expenditures	Accrued (Deferred)
U.S. Department of Treasury					
<u>Direct Award</u>					
Coronavirus State and Local Fiscal Recovery Funds - ARPA	21.027	\$ 270,025	\$ 628,600	\$ 358,575	\$ -
Total Federal Awards		<u>\$ 270,025</u>	<u>\$ 628,600</u>	<u>\$ 358,575</u>	<u>\$ -</u>