

Independent Auditor's Report and Financial Statements

Enterprise Funds of the City of Smackover, Arkansas

For the Year Ended December 31, 2025

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Independent Auditor's Report

To Donald Brock, Mayor and Members of the City Council
City of Smackover, Arkansas
Smackover, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Enterprise Funds of the City of Smackover, Arkansas (the Enterprise Funds), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Enterprise Funds of the City of Smackover, Arkansas as of December 31, 2025, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 City of Smackover, Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

City of Smackover, Arkansas's 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 Enterprise Funds' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS, 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 Enterprise Funds' 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's ability to continue as a going concern for a reasonable period of time.

Enterprise Funds of the City of Smackover, Arkansas
Independent Auditor's Report (Continued)

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

Accounting principles generally accepted in the United States of America require that the schedule of the Enterprise Funds' proportionate share of the net pension liability and the schedule of the Enterprise Funds' contributions to pension plan on pages 17 and 18 be presented to supplement the 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.

Accounting principles generally accepted in the United States of America also require *Management's Discussion and Analysis* be presented to supplement the financial statements. *Management's Discussion and Analysis*, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, as it is considered an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Management has elected to omit *Management's Discussion and Analysis*. Our opinions on the financial statements are not affected by this information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Enterprise Funds of the City of Smackover, Arkansas' basic financial statements. The combining statement of net position, enterprise funds and the combining statement of revenues, expenses and changes in net position, enterprise funds on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information presented is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2026 on our consideration of the Enterprise Funds' 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 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 Enterprise Funds' internal control over financial reporting and compliance.

Other Matters

As disclosed in Note 1 to the financial statements, these financial statements present only the financial position, the changes in financial position and cash flows of the Enterprise Funds and are not intended to present, and do not present the financial position of the City of Smackover, Arkansas.



Emrich & Scroggins, LLP
Certified Public Accountants

El Dorado, Arkansas

August 7, 2026

City of Smackover, Arkansas
Statement of Net Position – Enterprise Funds
December 31, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Water & Sewer Fund</u>	<u>Cemetery Fund</u>	<u>Total Enterprise Funds</u>
Current Assets			
Cash and cash equivalents	\$ 1,586,400	\$ 67,922	\$ 1,654,322
Cash and cash equivalents - certificates of deposit	248,825	92,689	341,514
Receivables	124,724	-	124,724
Total Current Assets	<u>1,959,949</u>	<u>160,611</u>	<u>2,120,560</u>
Restricted Assets			
Cash and cash equivalents	<u>396,702</u>	<u>-</u>	<u>396,702</u>
Capital Assets			
Non-depreciable	36,921	70,895	107,816
Depreciable, net of accumulated depreciation	<u>2,996,152</u>	<u>6,044</u>	<u>3,002,196</u>
Total Capital Assets	<u>3,033,073</u>	<u>76,939</u>	<u>3,110,012</u>
Total Assets	<u>5,389,724</u>	<u>237,550</u>	<u>5,627,274</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>46,267</u>	<u>-</u>	<u>46,267</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 5,435,991</u></u>	<u><u>\$ 237,550</u></u>	<u><u>\$ 5,673,541</u></u>

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

City of Smackover, Arkansas
Statement of Net Position – Enterprise Funds (Continued)
December 31, 2025

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>Water & Sewer Fund</u>	<u>Cemetery Fund</u>	<u>Total Enterprise Funds</u>
Current Liabilities			
Accounts payable	\$ 3,059	\$ -	\$ 3,059
Accrued expenses	8,021	-	8,021
Accrued interest payable	-	1,022	1,022
Current maturities of long-term debt	1,538	-	1,538
Payable from restricted assets:			-
Accrued interest payable	5,060	-	5,060
Current maturities of long-term debt	38,083	-	38,083
Total Current Liabilities	<u>55,761</u>	<u>1,022</u>	<u>56,783</u>
Long-term Liabilities			
Long-term debt, net of current portion	303,224	-	303,224
Customer deposits	168,918	-	168,918
Net pension liability	185,246	-	185,246
Total Long-term Liabilities	<u>657,388</u>	<u>-</u>	<u>657,388</u>
Total Liabilities	<u>713,149</u>	<u>1,022</u>	<u>714,171</u>
Deferred Inflows of Resources			
Pension related deferred inflows	<u>20,561</u>	<u>-</u>	<u>20,561</u>
Net Position			
Net investment in capital assets	2,705,607	76,939	2,782,546
Restricted - expendable for debt service	396,702	-	396,702
Unrestricted	1,599,972	159,589	1,759,561
Total Net Position	<u>4,702,281</u>	<u>236,528</u>	<u>4,938,809</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 5,435,991</u></u>	<u><u>\$ 237,550</u></u>	<u><u>\$ 5,673,541</u></u>

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

City of Smackover, Arkansas
Statement of Revenues, Expenses and Changes in Net Position – Enterprise Funds
For the Year Ended December 31, 2025

	<u>Water & Sewer Fund</u>	<u>Cemetery Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Water sales	\$ 544,466	\$ -	\$ 544,466
Sewer sales	357,791	-	357,791
Lot payments and service charges	-	29,725	29,725
Other income	3,439	-	3,439
	<u>905,696</u>	<u>29,725</u>	<u>935,421</u>
Total Operating Revenues			
Operating Expenses			
Salaries, labor and benefits	261,646	-	261,646
Payroll taxes	17,376	-	17,376
Repairs and maintenance	84,734	88	84,822
Utilities	53,813	261	54,074
Legal and professional	33,672	-	33,672
Office expense	5,605	-	5,605
Due, fees, permits, travel and meetings	25,242	-	25,242
Plant expense	12,175	-	12,175
Supplies	4,563	64	4,627
Vehicle expense	9,109	183	9,292
Postage	6,674	-	6,674
Analysis	5,920	-	5,920
Insurance	5,862	-	5,862
Burial services	-	19,729	19,729
Depreciation	195,125	585	195,710
	<u>721,516</u>	<u>20,910</u>	<u>742,426</u>
Total Operating Expenses			
Operating Income	184,180	8,815	192,995
Non-operating Revenues (Expenses)			
Investment income	14,736	4,056	18,792
Interest expense	(13,800)	-	(13,800)
	<u>936</u>	<u>4,056</u>	<u>4,992</u>
Total Non-operating Revenues (Expenses)			
Change in Net Position Before Transfers	185,116	12,871	197,987
Transfers from other funds	16,642	-	16,642
	<u>201,758</u>	<u>12,871</u>	<u>214,629</u>
Change in Net Position			
Net Position - Beginning, As Previously Stated	4,447,965	223,657	4,671,622
Prior period adjustment	52,558	-	52,558
	<u>4,500,523</u>	<u>223,657</u>	<u>4,724,180</u>
Net Position - Beginning, Restated			
Net Position - Ending	<u>\$ 4,702,281</u>	<u>\$ 236,528</u>	<u>\$ 4,938,809</u>

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

City of Smackover, Arkansas
Statement of Cash Flows – Enterprise Funds
For the Year Ended December 31, 2025

	Water & Sewer Fund	Cemetery Fund	Total Enterprise Funds
Operating Activities			
Receipts from customers	\$ 904,232	\$ 29,725	\$ 933,957
Cash paid for supplies and operating costs	(254,374)	(20,996)	(275,370)
Cash paid for employee and related costs	(279,314)	-	(279,314)
Net cash provided by operating activities	<u>370,544</u>	<u>8,729</u>	<u>379,273</u>
Capital and Related Financing Activities			
Purchases of property, plant and equipment	(15,730)	-	(15,730)
Interest paid on bonds	(13,800)	-	(13,800)
Retirement of long-term debt	(134,378)	-	(134,378)
Net cash (used in) capital and related financing activities	<u>(163,908)</u>	<u>-</u>	<u>(163,908)</u>
Investing Activities			
Income on certificates of deposit	14,736	4,056	18,792
Net cash provided by investing activities	<u>14,736</u>	<u>4,056</u>	<u>18,792</u>
Net Increase in Cash and Cash Equivalents	221,372	12,785	234,157
Cash and Cash Equivalents - Beginning, As Previously Stated	<u>1,977,293</u>	<u>147,826</u>	<u>2,125,119</u>
Prior period adjustment	33,262	-	33,262
Cash and Cash Equivalents - Beginning, Restated	<u>2,010,555</u>	<u>147,826</u>	<u>2,158,381</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,231,927</u></u>	<u><u>\$ 160,611</u></u>	<u><u>\$ 2,392,538</u></u>
Presented on Statement of Net Position as follows:			
Current assets			
Cash and equivalents	\$ 1,586,400	\$ 67,922	\$ 1,654,322
Certificates of deposit	248,825	92,689	341,514
Restricted assets - cash and equivalents	396,702	-	396,702
	<u><u>\$ 2,231,927</u></u>	<u><u>\$ 160,611</u></u>	<u><u>\$ 2,392,538</u></u>

(Continued)

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

City of Smackover, Arkansas
Statement of Cash Flows - Enterprise Funds (Continued)
For the Year Ended December 31, 2025

	Water & Sewer Fund	Cemetery Fund	Total Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 184,180	\$ 8,815	\$ 192,995
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	195,125	585	195,710
Changes in pension related accounts:			
Net pension liability	(14,612)	-	(14,612)
Deferred outflows	6,608	-	6,608
Deferred inflows	(1,362)	-	(1,362)
Decrease (increase) in current assets:			
Accounts receivable	(4,333)	-	(4,333)
Increase (decrease) in current liabilities:			
Accounts payable	(7,004)	(671)	(7,675)
Compensated absences	9,074	-	9,074
Customer deposits	2,868	-	2,868
Total adjustments	186,364	(86)	186,278
Net cash provided by operating activities	<u>\$ 370,544</u>	<u>\$ 8,729</u>	<u>\$ 379,273</u>

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

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

The City of Smackover, Arkansas's enterprise funds include the Water and Sewer Fund and the Cemetery Fund (the Enterprise Funds). These Funds provide water, wastewater and burial services to residents and businesses in the City of Smackover and surrounding areas.

The City Council of the City of Smackover (City Council) serves as the governing board of the Enterprise Funds and approves rates and fees for user charges.

Basis of Accounting and Presentation

The Enterprise Funds are accounted for as enterprise funds and use the accrual basis of accounting. The Enterprise Funds' financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental enterprise units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Enterprise funds are 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 that 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. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for water and sewer sales and services. Operating expenses for the Enterprise Funds include the cost of pumping, treating and delivering water and sewer discharge, administrative services, burial services and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, the Enterprise Funds' policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the presentation of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand, demand deposit accounts, money market deposits accounts and certificates of deposit with original maturities of 3 months or less at the date of purchase.

Deposits and Investments

Cash includes amounts in demand and time deposit accounts. The Enterprise Funds classify all certificates of deposit and money market accounts insured by direct obligations of the United States government as cash and cash equivalents on its statement of net position. Certificates of deposit are reported at cost, which approximates fair value.

Receivables

Accounts receivable include balances due from customers for services or water provided. Customer deposits may be required when credit is extended to customers. Payments are considered delinquent if not received on or before the date due, and a 10% late charge is assessed. Amounts are written off at the point when collection attempts have been attempted, which is usually 61 days after the account is past due. The Enterprise Funds use the direct write-off method of recording bad debts; accordingly, an allowance for doubtful accounts is not included in the financial statements. Management believes that there is no material difference between the direct write-off method used and the allowance method.

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

It is generally the Enterprise Funds' policy that assets to be used in operations with an initial value or cost greater than or equal to \$1,500 and an estimated useful life of greater than 1 year are reported as capital assets. Capital assets are recorded at historical cost, including all direct salaries, material and supplies related to construction and improvements completed by Enterprise Fund personnel. Interest costs related to acquiring or constructing capital assets are also capitalized as part of the related asset. Contributed assets are recorded at the estimated fair value on the date of contribution.

Costs related to major additions and betterments of capital assets are capitalized, while costs of repairs and maintenance that do not add value or extend the useful life of the related asset are expended as incurred.

Depreciation is provided using the straight-line method over the following estimated useful lives:

Plant and infrastructure.....	5 - 40 years
Equipment.....	5 - 10 years
Transportation.....	5 years

Management evaluates events or changes in circumstances affecting capital assets to determine whether impairment has occurred. Such events or changes may include physical damage, obsolescence, changes in or new laws or regulations, construction stoppage or environmental factors. If it is determined that an asset is impaired and that impairment is other than temporary, impairment losses are recorded. There were no impairment losses recorded for the year ended December 31, 2025.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods and so will not be recognized as an outflow or inflow of resources until then.

Compensated Absences

The Enterprise Funds' policies permit full-time employees to accumulate vacation leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as benefits are earned.

Long-term Obligations

Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

Net Position

The Enterprise Funds' net position is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted net position* presents assets which are restricted either for debt service or capital projects, net of related payables. Net position restricted for debt service is related to assets which are restricted for use pursuant to bond agreements. Net position restricted for capital projects is related to bond proceeds, capital contributions, and contributions receivable which are restricted to certain capital projects. *Unrestricted net position* is the remaining assets less the remaining liabilities that do not meet the definition of net position invested in capital assets, net of related debt; or net position restricted for debt service or capital projects.

Revenue Recognition

The Enterprise Funds recognize revenue as water, sewer, and cemetery services are provided to customers, which happens over time as the service is delivered and the performance obligation is satisfied. Revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. Unbilled amounts are calculated by deriving estimates based on average daily usage of the billing cycle immediately following the accounting period. Unbilled amounts are included in accounts receivable and operating revenues in the financial statements.

Generally, payment is due within 30 days once a bill is issued to a customer. Sales tax and other taxes that are collected on behalf of government authorities, concurrent with revenue-producing activities, are primarily excluded from revenue.

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Administrative Expenses and Transfers

Substantially all indirect administrative expenses not directly attributable to water or sewer are allocated based on water and sewer revenues.

Income Taxes

As a municipal owned utility, the Enterprise Funds are exempt from federal and state income taxes.

Retirement Benefits

The City participates in the Arkansas Public Employees Retirement System (“APERS”), a cost-sharing multiple-employer defined benefit plan, which provides retirement benefits to the Enterprise Funds’ employees. Pension items are allocated to the Enterprise Funds based on the City’s estimate of the Enterprise Funds’ proportionate share of contributions paid to APERS. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of APERS and additions to/deductions from APERS’ fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Reclassifications

Certain amounts in the 2024 financial statements have been reclassified to conform with the 2025 financial statement presentation.

Subsequent Events

Management has evaluated subsequent events through August 7, 2026, the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS, INVESTMENTS AND INVESTMENT INCOME

At December 31, 2025, the Enterprise Funds’ deposits consisted of demand accounts and time deposit accounts, and the Enterprise Funds also hold investments of \$341,514 in certificates of deposit. These balances are classified as cash and cash equivalents in the Enterprise Funds’ Statement of Net Position due to their highly liquid nature.

Custodial Credit Risk

State of Arkansas (the State) statutes require the Enterprise Funds to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the Enterprise Funds. To mitigate this risk, it is generally the Enterprise Funds’ policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the Enterprise Funds’ name by an agent of the Enterprise Funds. At December 31, 2025, the Enterprise Funds’ had uninsured deposit balances of \$1,156,919.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investing is performed in accordance with the investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, (2) certificates of deposit at financial institutions when secured by acceptable collateral, (3) time deposit accounts at financial institutions, to the extent fully insured, (4) any bond, note or other indebtedness insured by U.S. government or those agencies insured and guaranteed by the federal government and (5) in equity securities, to a limited extent.

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the Water and Sewer Fund for the year ended December 31, 2025 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated</i>				
<i>Water Fund</i>				
Land	\$ 24,357	\$ -	\$ -	\$ 24,357
<i>Sewer Fund</i>				
Land	12,565	-	-	12,565
Total Capital Assets, Not Being Depreciated	36,922	-	-	36,922
<i>Capital Assets, Being Depreciated</i>				
<i>Water Fund</i>				
Tools and Equipment	156,683	-	-	156,683
Transportation Equipment	127,021	-	-	127,021
Office Equipment	17,740	-	(566)	17,174
Plant Equipment	2,971,260	-	(32,028)	2,939,232
<i>Sewer Fund</i>				
Sewer System	3,895,327	-	-	3,895,327
Wet Lands	79,168	-	-	79,168
Equipment	150,446	15,730	(566)	165,610
Total Capital Assets, Being Depreciated	7,397,645	15,730	(33,160)	7,380,215
Total Capital Assets	7,434,567	15,730	(33,160)	7,417,137
Total Accumulated Depreciation	4,222,099	195,125	(33,160)	4,384,064
Capital Assets, Net	\$ 3,212,468	\$ (179,395)	\$ -	\$ 3,033,073

Capital asset activity of the Cemetery Fund for the year ended December 31, 2025 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 70,895	\$ -	\$ -	\$ 70,895
Total Capital Assets, Not Being Depreciated	70,895	-	-	70,895
<i>Capital Assets, Being Depreciated</i>				
Equipment	23,497	-	-	23,497
Improvements	44,362	-	(3,152)	41,210
Total Capital Assets, Being Depreciated	67,859	-	(3,152)	64,707
Total Capital Assets	138,754	-	(3,152)	135,602
Total Accumulated Depreciation	61,230	585	(3,152)	58,663
Capital Assets, Net	\$ 77,524	\$ (585)	\$ -	\$ 76,939

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 4 – LONG-TERM DEBT

Long-term debt payable at December 31, 2025 was comprised of the following:

Water and Sewer Revenue Bonds, Series 2010A

The \$450,000 Water and Sewer Revenue Bond (the Series 2010A Bonds) were issued for the purpose of financing the construction of betterments and improvements to the City of Smackover's water and sewer system and expenses for issuing the bonds. The Series 2010A Bonds are special obligations of the Water and Sewer Fund, payable from revenues of the water and sewer system. Annual interest rate is 3.50%. Interest and principal payments are due semiannually on April 15 and October 15 with the final payment scheduled in 2042.

Water and Sewer Refunding Revenue Bonds, Series 2016

The \$690,000 Water and Sewer Refunding Revenue Bonds, Series 2016 (the Refunding Revenue Series 2016 Bonds) were issued for the purpose of refunding the Water and Sewer Fund's Sewer Revenue Bond, Series 1992 and the Water and Sewer Revenue Bond, Series 2002 as well as to fund a debt service reserve and to pay expenses of issuing the Bonds. The Series 2016 Bonds are special obligations of the Water and Sewer Fund, payable from revenues of the water and sewer system. Annual interest rate is 3.45%. Principal and interest payments are due monthly. During 2025, the Water and Sewer Fund paid off the Refunding Revenue Series 2016 Bonds.

Water and Sewer Revenue Bonds, Series 2016

The \$412,000 Water and Sewer Revenue Bonds, Series 2016 (the Series 2016 Bonds) were issued for the purpose of financing improvements to the water and sewer system and expenses for issuing the Bonds. The Series 2016 Bonds are special obligations of the Water and Sewer Fund, payable from revenues of the water and sewer system. Annual interest rate is 2.75%. Principal payments are due semiannually on April 15 and October 15. During 2025, the Water and Sewer Fund paid off the Series 2016 Bonds.

Water and Sewer Revenue Bonds, Series 2020

The \$694,800 Water and Sewer Refunding Revenue Bonds, Series 2020 (the Series 2020 Bonds) were issued for the purpose of financing improvements to the water and sewer system and expenses for issuing the Bonds. The Series 2022 Bonds are special obligations of the Water and Sewer Fund, payable from revenues of the water and sewer system. Annual interest rates is 1.75%. Principal payments are due semiannually on April 15 and October 15 with the final payment scheduled in 2041.

Compensated Absences

Compensated absences consist of vacation leave to the extent that payments are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Enterprise Funds and the employee. The liability has been calculated using pay rates in effect at December 31, 2025. The Enterprise Funds estimate the current portion of the compensated absences liability to be 10% of the total.

Changes in long-term debt for the year ended December 31, 2025 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
2010 A Water Revenue Bond	\$ 316,619	\$ -	\$ (13,381)	\$ 303,238	\$ 13,855
2016 Revenue Refunding Bond	81,790	-	(81,790)	-	-
2016 Water and Sewer Revenue Bond	27,638	-	(27,638)	-	-
2020 Water and Sewer Revenue Bond	55,091	-	(30,863)	24,228	24,228
Sub-total Revenue Bonds	481,138	-	(153,672)	327,466	38,083
Accrued Compensated Absences	6,305	9,074	-	15,379	1,538
Total Bonds Payable	<u>\$ 487,443</u>	<u>\$ 9,074</u>	<u>\$ (153,672)</u>	<u>\$ 342,845</u>	<u>\$ 39,621</u>

Presented on the statement of net position under the following captions:

Current maturities of long-term debt	\$ 1,538
Current maturities of long-term debt payable from restricted assets	38,083
Long-term debt, net of current portion	303,224
	<u>\$ 342,845</u>

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 4 – LONG-TERM DEBT (Continued)

The sinking fund requirements as of December 31, 2025 were as follows:

Year Ending December 31,	Bonds Payable		
	Principal	Interest	Total to be Paid
2026	\$ 38,083	\$ 10,780	\$ 48,863
2027	14,345	10,004	24,349
2028	14,851	9,497	24,348
2029	15,375	8,973	24,348
2030	15,918	8,430	24,348
2031-2035	88,428	33,313	121,741
2036-2040	105,178	16,561	121,739
2041-2042	35,288	1,242	36,530
	<u>\$ 327,466</u>	<u>\$ 98,800</u>	<u>\$ 426,266</u>

The terms of the bond agreements impose certain restrictive covenants on the Water and Sewer Fund. Generally, the Water and Sewer Fund is required to establish and maintain rates to provide gross revenues at least sufficient to pay monthly operation, maintenance and funded depreciation expenses on all outstanding bonds to which the Water and Sewer Fund's water and sewer revenues are pledged.

Pledged Revenues

The following is a summary of pledged revenues of the Water and Sewer Fund for the year ended December 31, 2025:

Debt	Revenue Pledged	Total Pledged Revenue	Current Portion of Remaining Debt Service Requirement	Percentage Portion of Pledged Revenue Stream	Long-term Portion of Remaining Debt Service Requirement	Period Revenue will not be Available for Other
2010A Water Revenue Bond	Net revenues of the Water and Wastewater System	\$ 394,041	\$ 24,348	6.2%	\$ 377,403	Until 2042
2020 Water and Sewer Revenue Bond	Net revenues of the Water and Wastewater System	\$ 394,041	\$ 24,515	6.2%	\$ -	Until 2027

NOTE 5 – RESTRICTED NET POSITION

At December 31, 2025, the Water and Sewer Fund had net assets of \$396,702 which were restricted for debt service.

NOTE 6 – RISK MANAGEMENT

The Enterprise Funds are exposed to various risks of loss from: torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption.

Settled claims have not exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in fiscal year 2025.

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 7 – PENSION PLAN

Plan description: All eligible Enterprise Funds employees participate in the Arkansas Public Employees' Retirement Plan (the "Plan"), a multi-employer, cost sharing, defined benefit plan, qualified under Section 401(a) of the Internal Revenue Code, with defined contribution options. The administration and control of the plan is vested in the Board of Trustees of Arkansas Public Employees' Retirement System ("APERS"). The Plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957; detailed information on the Plan can be found in Title 24 of Arkansas Code Annotated. The Plan issues a publicly available financial report that includes financial statements and supplementary information for the Plan which is available on the APERS website, www.apers.org. The report may also be obtained by writing to APERS, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201-1015.

Benefits provided: The Plan provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Current retirement law provides for a three percent (3%) COLA to all APERS retirees who have been retired or participated in the Deferred Retirement Option Plan (DROP) for at least twelve months on July 1 of each year. Benefit provisions are established by state law and may be amended only by state legislature.

Contributions: Contributions are set forth in Arkansas statute and the Plan was established as contributory. Act 793 of 1977 allowed existing and previous members to become noncontributory members. Anyone joining after January 1, 1978 was automatically enrolled as a noncontributory member. Act 2084 of 2005 established a new contributory requirement for all covered employees first hired on or after July 1, 2005. Employees hired prior to this date have the option to become a contributory member at any time. The Enterprise Funds are required to contribute a percent of covered salary at an actuarially determined rate. Required employer contributions made during the period July 1, 2024 through June 30, 2025 totaled \$32,812. The employer contribution rate applicable was 15.32% of covered payroll.

Pension Liabilities, Pension Expense, and Deferred Inflows of Resources Related to Pensions: At December 31, 2025, the Enterprise Funds reported a liability of \$185,246 for its proportionate share of the net pension liability. The 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. The Enterprise Funds' proportion of the net pension liability was based on a projection of the Enterprise Funds' long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2025, the Enterprise Funds' proportion was 0.01%.

For the year ended December 31, 2025, the Enterprise Funds recognized actuarially determined pension expense of \$24,104. At December 31, 2025, the Enterprise Funds reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 3,214	\$ -
Changes in proportion and differences between employer contributions and share of contributions	21,206	(2,710)
Differences between expected and actual experience	5,740	(5,563)
Net difference between projected and actual investment earnings on pension plan investments	-	(12,288)
Contributions subsequent to the measurement date	16,107	-
Total	<u>\$ 46,267</u>	<u>\$ (20,561)</u>

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 7 – PENSION PLAN (Continued)

\$16,107 reported as deferred outflows of resources related to pensions resulting from the Enterprise Funds' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026.

Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflow/Inflow Amounts
2026	\$ 35,141
2027	(10,759)
2028	(7,980)
2029	(6,803)
	\$ 9,599

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
Discount rate	7%
Inflation rate	3.25% wage inflation; 2.50% price inflation
Salary increases	3.25% to 9.85%, including inflation
Investment rate of return, net	7.15%

The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 114% and 132% of the PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality tables males and females, respectively. The disabled retiree mortality tables, for post-retirement disabled mortality, used in evaluating allowances to be paid were 114% and 132% of the PubNS-2010 Amount-Weighted Disabled Retiree Mortality tables for males and females, respectively. The pre-retirement mortality tables used were 75% of the PubG-2010 Amount-Weighted Below-Median General Employee Mortality tables for active mortality experience. Mortality rates for a particular calendar year are determined by applying the MP-2021 mortality improvement scale to the above-described tables. These assumptions were first used for the June 30, 2023 valuation.

Investment Rate of Return: The investment rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of returns by weighing the expected future real rates of return by the current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period 2020-2029 were based upon capital market assumptions provided by the Plan's investment consultant. For each major asset class included in the Plan's target asset allocation as of December 31, 2025, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	39%	5.14%
International Equity	17%	5.97%
Real Estate	16%	5.00%
Private Equity	5%	8.77%
Hedge Funds	2%	3.58%
Domestic Fixed	21%	3.26%
	100%	

City of Smackover, Arkansas
Notes to Financial Statements – Enterprise Funds
December 31, 2025

NOTE 7 – PENSION PLAN (Continued)

Discount rate: A single discount rate of 7% 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%. 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.

Sensitivity of the Enterprise Funds' proportionate share of the net pension liability to changes in the discount rate: The following presents the Enterprise Funds' proportionate share of the net pension liability calculated using the discount rate of 7%, as well as what the Enterprise Funds' proportionate share of the net pension liability would be if it were calculated using a discount rate of one percentage point lower (6%) or one percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Enterprise Funds' proportionate share of the net pension liability	\$ 345,694	\$ 185,246	\$ 52,939

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued APERS financial report. Additional financial and actuarial information is available in APERS' annual financial report for the year ended June 30, 2025. This information and the actuarial valuation report are available on the APERS website, www.apers.org. The reports may also be obtained by writing to APERS, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-501-682-7800.

NOTE 8 – COMMITMENTS

At December 31, 2025, the Water and Sewer Fund had a construction contract commitment in place on the following project:

Project Description	Project Authorization	Paid Through 12/31/25	Remaining Commitment
Sewer Rehabilitation Project	\$ 286,850	-	\$ 286,850

NOTE 9 – PRIOR PERIOD ADJUSTMENTS

During the year ended December 31, 2025, the Enterprise Funds determined that bond escrow cash accounts of \$38,693 were not recorded in prior periods and debt payments of \$13,865 were incorrectly expensed as interest expense in a prior period. Accordingly, the Enterprise Funds recorded a prior period adjustment in 2025 to record the effect of these transactions. The prior period adjustment totaled \$52,558 and resulted in an increase in restricted cash and a decrease in debt of \$38,693 and \$13,865, respectively.

NOTE 10 – CHANGE IN ACCOUNTING ESTIMATE AND TRANSFERS FROM OTHER FUNDS

A transfer from the City of Smackover of \$16,642 to the water and sewer fund was recorded during the year as a result in change in measurement methodology pertaining to allocating pension expense among the funds. Pension is allocated based on salaries per fund for participating employees compared to total reported wages to APERS. This methodology is preferable because it provides a more accurate reflection of pension expense by fund than previous allocation methodology.

NOTE 11 – CHANGE IN FUND CLASSIFICATION

The City of Smackover reclassified the Solid Waste Fund, previously reported as an Enterprise Fund, as a Special Revenue Fund during the year ended December 31, 2025. The reclassification resulted from determining that the fund's operations were primarily financed by sales tax revenue and not user charges. Accordingly, the fund's beginning net position balance of \$223,657 was removed from the Enterprise Fund financial statements to be included with the City's other Governmental Funds.

Required Supplementary Information

City of Smackover, Arkansas
Schedule of the Enterprise Funds' Proportionate Share of the Net Pension Liability – Last Ten Years
December 31, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Enterprise Funds' proportion of the net pension liability	0.00883%	0.00899%	0.00846%	0.00887%	0.00887%
Enterprise Funds' proportionate share of the net pension liability	\$ 185,246	\$ 223,666	\$ 246,656	\$ 239,162	\$ 68,211
Enterprise Funds' covered-employee payroll	\$ 214,176	\$ 202,855	\$ 190,613	\$ 182,201	\$ 169,247
Enterprise Funds' proportionate share of the net pension liability as a percentage of its covered-employee payroll	86.49%	110.26%	129.40%	131.26%	40.30%
Plan fiduciary net position as a percentage of the total pension liability	85.04%	81.61%	77.94%	78.31%	93.57%
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Enterprise Funds' proportion of the net pension liability	0.00921%	0.00927%	0.00895%	0.00884%	0.00819%
Enterprise Funds' proportionate share of the net pension liability	\$ 263,805	\$ 223,693	\$ 197,482	\$ 228,458	\$ 195,775
Enterprise Funds' covered-employee payroll	\$ 177,739	\$ 179,513	\$ 165,546	\$ 158,080	\$ 146,967
Enterprise Funds' proportionate share of the net pension liability as a percentage of its covered-employee payroll	148.42%	124.61%	119.29%	144.52%	133.21%
Plan fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%	75.65%	75.50%

City of Smackover, Arkansas
Schedule of the Enterprise Funds' Contributions to Pension Plan – Last Ten Years
December 31, 2025

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Statutorily required contribution	\$ 32,812	\$ 31,077	\$ 29,202	\$ 27,913	\$ 25,929
Contributions in relation to the statutorily required contribution	<u>32,812</u>	<u>31,077</u>	<u>29,202</u>	<u>27,913</u>	<u>25,929</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Enterprise Funds' covered- employee payroll	\$ 214,176	\$ 202,855	\$ 190,613	\$ 182,201	\$ 169,247
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	15.32%

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 27,230	\$ 27,501	\$ 24,418	\$ 22,922	\$ 21,692
Contributions in relation to the statutorily required contribution	<u>27,230</u>	<u>27,501</u>	<u>24,418</u>	<u>22,922</u>	<u>21,692</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Enterprise Funds' covered- employee payroll	\$ 177,739	\$ 179,513	\$ 165,546	\$ 158,080	\$ 146,967
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	14.75%	14.50%	14.76%

Supplementary Information

City of Smackover, Arkansas
Combining Statement of Net Position – Enterprise Funds
For the Year Ended December 31, 2025

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 1,142,076	444,324	\$ 1,586,400
Cash and cash equivalents - certificates of deposit	248,825	-	248,825
Receivables	64,128	60,596	124,724
Total Current Assets	<u>1,455,029</u>	<u>504,920</u>	<u>1,959,949</u>
Restricted Assets			
Cash and cash equivalents	<u>19,769</u>	<u>376,933</u>	<u>396,702</u>
Capital Assets			
Non-depreciable	24,356	12,565	36,921
Depreciable, net of accumulated depreciation	<u>1,025,324</u>	<u>1,970,828</u>	<u>2,996,152</u>
Total Capital Assets	<u>1,049,680</u>	<u>1,983,393</u>	<u>3,033,073</u>
Total Assets	<u>2,524,478</u>	<u>2,865,246</u>	<u>5,389,724</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>28,822</u>	<u>17,445</u>	<u>46,267</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 2,553,300</u></u>	<u><u>\$ 2,882,691</u></u>	<u><u>\$ 5,435,991</u></u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities			
Accounts payable	\$ 3,059	\$ -	\$ 3,059
Accrued expenses	6,800	1,221	8,021
Current maturities of long-term debt	960	578	1,538
Payable from restricted assets:			
Accrued interest payable	4,392	668	5,060
Current maturities of long-term debt	<u>13,855</u>	<u>24,228</u>	<u>38,083</u>
Total Current Liabilities	<u>29,066</u>	<u>26,695</u>	<u>55,761</u>
Long-term Liabilities			
Long-term debt, net of current portion	298,027	5,197	303,224
Customer deposits	168,918	-	168,918
Net pension liability	<u>115,399</u>	<u>69,847</u>	<u>185,246</u>
Total Long-term Liabilities	<u>582,344</u>	<u>75,044</u>	<u>657,388</u>
Total Liabilities	<u>611,410</u>	<u>101,739</u>	<u>713,149</u>
Deferred Inflows of Resources			
Pension related deferred inflows	<u>12,809</u>	<u>7,752</u>	<u>20,561</u>
Net Position			
Net investment in capital assets	746,442	1,959,165	2,705,607
Restricted - expendable for debt service	19,769	376,933	396,702
Unrestricted	<u>1,162,870</u>	<u>437,102</u>	<u>1,599,972</u>
Total Net Position	<u>1,929,081</u>	<u>2,773,200</u>	<u>4,702,281</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 2,553,300</u></u>	<u><u>\$ 2,882,691</u></u>	<u><u>\$ 5,435,991</u></u>

City of Smackover, Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position – Enterprise Funds
For the Year Ended December 31, 2025

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues			
Water and sewer sales	\$ 544,466	\$ 357,791	\$ 902,257
Other income	4,094	(655)	3,439
Total Operating Revenues	<u>548,560</u>	<u>357,136</u>	<u>905,696</u>
Operating Expenses			
Salaries, labor and benefits	162,599	99,047	261,646
Payroll taxes	10,936	6,440	17,376
Repairs and maintenance	56,820	27,914	84,734
Utilities	43,628	10,185	53,813
Legal and professional	33,672	-	33,672
Office expense	5,605	-	5,605
Due, fees, permits, travel and meetings	25,242	-	25,242
Plant expense	12,175	-	12,175
Supplies	-	4,563	4,563
Vehicle expense	8,567	542	9,109
Postage	6,674	-	6,674
Analysis	-	5,920	5,920
Insurance	5,862	-	5,862
Depreciation	81,600	113,525	195,125
Total Operating Expenses	<u>453,380</u>	<u>268,136</u>	<u>721,516</u>
Operating Income	95,180	89,000	184,180
Non-operating Revenues (Expenses)			
Investment income	12,653	2,083	14,736
Interest expense	(10,710)	(3,090)	(13,800)
Total Non-operating Revenues (Expenses)	<u>1,943</u>	<u>(1,007)</u>	<u>936</u>
Change in Net Position Before Transfers	97,123	87,993	185,116
Transfers from other funds	(11,440)	28,082	16,642
Change in Net Position	<u>\$ 85,683</u>	<u>\$ 116,075</u>	<u>\$ 201,758</u>

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 Donald Brock, Mayor and Members of the City Council
City of Smackover, Arkansas
Smackover, 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 the Enterprise Funds of the City of Smackover, Arkansas, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise City of Smackover, Arkansas's Enterprise Funds' basic financial statements, and have issued our report thereon dated August 7, 2026.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Smackover, Arkansas's internal control over financial reporting (internal control) to determine the 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 City of Smackover, Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Smackover, Arkansas'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Enterprise Funds' 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 were not identified. We identified deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2025-001, 2025-002, and 2025-003, that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Smackover, Arkansas's Enterprise Fund financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 an instance of noncompliance, described in the accompanying schedule of findings and responses as item 2025-002, that is required to be reported under *Government Auditing Standards*.

City of Smackover's Response to Findings

City of Smackover, Arkansas's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Smackover, Arkansas's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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 result of that testing, and not to provide an opinion on the effectiveness of the City of Smackover, Arkansas'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 City of Smackover, Arkansas's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Emrich & Scroggins, LLP".

Emrich & Scroggins, LLP
El Dorado, Arkansas

August 7, 2026

City of Smackover, Arkansas
Enterprise Funds
Schedule of Findings and Responses – Enterprise Funds
For the Year Ended December 31, 2025

2025-001

Segregation of Duties

Condition: City of Smackover, Arkansas did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing and recording cash transactions to sufficiently reduce the risks of fraud or error.

Criteria: Proper segregation of controls should be in place to provide reasonable assurance that fraud or error does not occur.

Cause: City of Smackover, Arkansas has limited financial resources which prevent it from fully segregating financial accounting duties.

Effect: Without proper segregation of duties, opportunity for fraud or error exists.

Recommendation: City of Smackover, Arkansas should evaluate its internal controls and segregate financial duties to the extent possible with the current staffing levels and consider additional oversight where segregation is not possible.

Views of Responsible Officials: City of Smackover, Arkansas will segregate financial duties to the extent possible with the current staffing levels.

2025-002

Noncompliance with Ordinance 472

Condition: City of Smackover, Arkansas does not have a single integrated system for the water and sewer system; the systems are operated as separate entities.

Criteria: The provisions of Ordinance 472 require that the municipal water system and the municipal sewer system, operated as separate entities, be combined into a single integrated system.

Cause: City of Smackover, Arkansas has not complied with the specific provisions of Ordinance 472 requiring these systems be combined into a single integrated system.

Effect: The municipal water and municipal sewer systems do not have an integrated accounting system.

Recommendation: City of Smackover, Arkansas should comply with the provisions of Ordinance 472 requiring the combination of the separate systems into a single integrated system.

Views of Responsible Officials: City of Smackover, Arkansas works to combine the system for annual reporting purposes but presently it is not feasible to combine the water and sewer system and operate them as a combined system.

2025-003

Material Audit Adjustments

Condition: City of Smackover, Arkansas has not recorded significant and material adjusting journal entries identified in previous audits.

Criteria: The City of Smackover, Arkansas should maintain adequate internal controls over financial reporting to ensure that the Enterprise Funds' financial statements are accurately prepared.

Cause: City of Smackover, Arkansas has not established internal controls to ensure significant and material adjustments are recorded in the Enterprise Funds' financial statements in a timely manner.

Effect: The Enterprise Funds' interim financial statements have been materially misstated.

Recommendation: City of Smackover, Arkansas should review its internal control procedures to ensure that significant transactions and annual audit adjustments are recorded timely.

Views of Responsible Officials: City of Smackover, Arkansas will establish internal controls to ensure timely and accurate recording of any year-end audit adjustments.