

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
FINANCIAL STATEMENTS
December 31, 2025

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
City of Stuttgart, Arkansas Water & Sewer Department

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the City of Stuttgart, Arkansas Water & Sewer Department, (the "Organization"), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Organization'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, the statement of revenues, expenses and changes in net position, and cash flows of the Organization as of and for the year then ended December 31, 2025, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes

our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

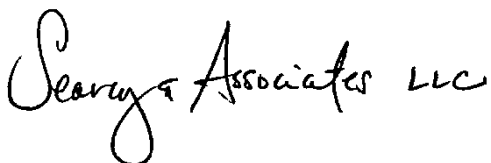
Management has omitted the Budget to Actual Comparison required by accounting principles generally accepted in the United States of America to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The accompanying Schedule of Operating Expenses and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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. The 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 supplementary 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 July 9, 2026 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.

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

Searcy & Associates, LLC
Monticello, Arkansas
July 9, 2026

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
STATEMENT OF NET POSITION

December 31, 2025

	<u>2025</u>
<u>Assets</u>	
<u>Current assets</u>	
Cash and cash equivalents	\$ 2,510,799
Accounts receivable (net)	1,243,046
Prepaid expenses	-
Total current assets	<u>3,753,845</u>
<u>Restricted cash and investments</u>	
Meter deposits	3,921,457
Construction fund	-
Debt service	1,948,182
Total restricted cash and investments	<u>5,869,639</u>
<u>Deferred outflow of resources related to pension</u>	126,192
<u>Fixed assets, net of accumulated depreciation</u>	<u>31,830,197</u>
Total assets	<u><u>\$ 41,579,873</u></u>
<u>Liabilities and Net Position</u>	
<u>Current liabilities</u>	
Accounts payable	\$ 669,766
Accrued interest	16,258
Accrued payroll	111,046
Accrued sales tax	12,488
Other accrued expenses	2,489
Due to city funds	220,867
Current portion of bonds payable	533,811
Total current liabilities	<u>1,566,725</u>
<u>Long term liabilities</u>	
Bonds payable, net of current amount	18,237,854
Pension liability	851,424
Customer deposits	212,995
Total long term liabilities	<u>19,302,273</u>
<u>Deferred inflow of resources related to pension</u>	104,103
<u>Net position</u>	
Invested in capital assets, net of related debt	13,058,532
Restricted	3,470,058
Unrestricted	4,078,182
Total net position	<u>20,606,772</u>
Total liabilities and net position	<u><u>\$ 41,579,873</u></u>

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

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Operating revenues</u>	
Water sales	\$ 2,409,047
Sewer sales	2,134,003
Connection charges and fees	14,870
Penalties and late fees	93,735
Infrastructure fee	446,813
Service charges	76,207
Other operating revenue	<u>40,186</u>
Total operating revenue	5,214,861
<u>Operating expenses</u>	
Plant operations and distribution	2,847,176
General and administrative	353,640
Depreciation	<u>1,151,752</u>
Total operating expenses	4,352,568
Income / (loss) from operations	862,293
<u>Other revenue / (expenses)</u>	
Interest income	64,323
Grant revenue	3,224,617
Interest expense	<u>(300,683)</u>
Total other revenue / (expenses)	<u>2,988,257</u>
<u>Excess (deficit) of revenues over expenses</u>	<u>\$ 3,850,550</u>
<u>Net position, beginning of year</u>	\$ 16,756,222
Change in net invested in capital assets	2,724,406
Change in restricted assets	204,941
Change in unrestricted assets	<u>921,203</u>
Change in net position	<u>3,850,550</u>
<u>Net position, end of year</u>	<u>\$ 20,606,772</u>

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

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
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	\$ 4,668,890
Payments for salaries and benefits	(1,224,412)
Payments for operating and administrative expenses	<u>(1,472,758)</u>
Net cash provided by (used for) operating activities	<u>1,971,720</u>
<u>Cash flows from investing activities</u>	
Purchase of property, plant and equipment	(9,641,871)
Interest income	<u>64,323</u>
Net cash provided by (used for) investing activities	<u>(9,577,548)</u>
<u>Cash flows from financing activities</u>	
Proceeds from grant revenue	3,224,617
Proceeds from issuance of debt	6,196,474
Principal payments on debt	(430,761)
Interest payments	(300,683)
Change in customer deposits	<u>1,551</u>
Net cash provided by (used for) financing activities	<u>8,691,198</u>
<u>Change in cash and cash equivalents</u>	1,085,370
<u>Cash and cash equivalents, beginning of year</u>	<u>7,295,068</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 8,380,438</u>
<u>Cash and cash equivalents</u>	\$ 2,510,799
<u>Restricted cash and cash equivalents</u>	<u>5,869,639</u>
	<u>\$ 8,380,438</u>

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

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
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>\$ 862,293</u>
Adjustments to reconcile operating income to	
net cash from operating activities:	
Depreciation	1,151,752
Pension GASB 68 adjustment	(72,118)
Changes in assets and liabilities:	
Accounts receivable	(545,971)
Accounts payable	603,978
Accrued payroll	(32)
Accrued sales tax	141
Due to city funds	(28,331)
Other accrued expenses	<u>8</u>
Total adjustments	1,109,427
Net cash provided by (used for) operating activities	<u><u>\$ 1,971,720</u></u>

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

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2025

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

City of Stuttgart, Arkansas Water & Sewer Department, (the “Organization”), is a component unit of the City of Stuttgart, Arkansas. The Organization is governed by the City Council. The Organization provides water and sewer services to the City of Stuttgart 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 City of Stuttgart.

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 flows.

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.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
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. An allowance for doubtful accounts is maintained. The estimated allowance for doubtful accounts as of December 31, 2025 is \$428,450. Bad debts are charged to operations as they are deemed uncollectible.

Investments

The Organization's investments are primarily brokered certificate of deposits. The Organization's practice is to reinvest excess earnings into brokered certificate of deposits in order to reduce the risk of cash deposits within one location and allows for competition to capitalize on the prevailing interest rate of returns at that time. It is the Organization's intentions to hold certificate of deposits until maturity. The Organization has elected to carry the investments at cost on the statement of net position since the cost basis is the amount to be received upon maturity plus any accrued interest. Accrued interest is recorded in the year the interest is earned in the statement of revenue, expenses, and changes in net position.

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.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 1 (continued)

Compensated Absences

The Organization's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Vacation and sick leave benefits are recognized as an expense when incurred. Any portion of the incurred benefit not paid at the end of the accounting period is recorded as a liability in the financial statements.

Deferred Outflow / Inflow of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources(expense) until then. The Organization has qualifying items for reporting in this category. Deferred outflows of resources include those related to pension changes for the Organization.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an increase to net position that applies to a future period and is recognized as an inflow of resources (revenue) until that time. The Organization has qualifying items for reporting in this category. Deferred inflows of resources include those related to pension changes for the Organization.

Pension

The Organization maintains one cost-sharing, multiple employer, defined benefit retirement plan. The plan is sponsored by the Arkansas Public Employee Retirement System.

For purposes of measuring the net pension asset or liability, deferred outflow of resources and deferred inflow of resources related to pension, and pension expense have been determined on the same basis as they are reported by the actuary. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plan. However, certain administrative functions are performed by employees of the Organization and are not reimbursed by the plan.

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.”

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
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 July 9, 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	2025			
	Total	Category 1	Category 2	Category 3
Bank A	\$ 5,989,490	\$ 250,000	\$ 5,739,490	\$ -
Bank B	2,388,086	250,000	2,138,086	-
Total	<u>\$ 8,377,576</u>	<u>\$ 500,000</u>	<u>\$ 7,877,576</u>	<u>\$ -</u>

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

The Organization has certain amounts of its cash accounts restricted at December 31, 2025 as classified on the statement of net position as restricted assets.

It is the Organization's policy to use other available cash for equipment replacement or repairs rather than the restricted amounts.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
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
Land	\$ 83,773	\$ -	\$ -	\$ -	\$ 83,773
Buildings & improvements	370,968	-	14,145	-	385,113
Machinery & equipment	2,145,375	-	-	-	2,145,375
Vehicles	1,275,648	-	-	-	1,275,648
Intangibles	87,904	-	-	-	87,904
Water & sewer system	44,980,866	-	206,617	-	45,187,483
Construction in progress	946,892	-	9,421,109	-	10,368,001
	49,891,426	-	9,641,871	-	59,533,297
Accumulated depreciation	(26,551,348)	-	(1,151,752)	-	(27,703,100)
	<u>\$ 23,340,078</u>	<u>\$ -</u>	<u>\$ 8,490,119</u>	<u>\$ -</u>	<u>\$ 31,830,197</u>

NOTE 4 – LONG-TERM DEBT

2025 ADFA bond debt

In 2020, the Organization issued \$7,911,332 in Revenue bonds in order to finance the construction of improvements to the wastewater treatment facility. The interest rate per annum is 0.75%. 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 revenue from the preceding month until a total of \$791,133 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.

2020 USDA bond debt

In 2020, the Organization issued \$1,050,000 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 2.375%. 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 \$340 a month until a total of \$40,704 has accumulated for the annual debt service payment, and monthly deposits into a depreciation account of \$7,381 a month until a total of \$1,272,800 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.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 4 (continued)

2016 USDA bond debt

In 2016, the Organization issued \$4,889,000 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 2.25%. 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 \$1,582 a month until a total of \$189,792 has accumulated for the annual debt service payment, and monthly deposits into a depreciation account of \$917 a month until a total of \$165,000 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.

2012 USDA bond debt

In 2012, the Organization issued \$7,079,000 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 2.75%. 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 \$2,471 a month until a total of \$296,472 has accumulated for the annual debt service payment, and monthly deposits into a depreciation account of \$6,806 a month until a total of \$1,225,000 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.

2016 USDA bond debt

In 2016, the Organization issued \$954,000 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 2.25%. 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 \$303 a month until a total of \$33,300 has accumulated for the annual debt service payment, and monthly deposits into a depreciation account of \$6,806 a month until a total of \$1,225,000 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.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 4 (continued)

2012 USDA bond debt

In 2012, the Organization issued \$1,000,000 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 20-year note. The interest rate on the note payable is 3.00%. 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 \$917 a month until a total of \$165,000 has accumulated for the annual debt service payment, and monthly deposits into a depreciation account of \$576 a month until a total of \$69,120 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.

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
Vac-Con Truck Lease	\$ 282,242	\$ -	\$ (91,658)	\$ 190,584	\$ 94,060
2024 ADFA Bond Payable	946,894	6,196,474	-	7,143,368	91,748
2020 USDA Bond Payable	974,955	-	(17,741)	957,214	18,167
2016 USDA Bond Payable	3,999,195	-	(100,845)	3,898,350	103,138
2012 USDA Bond Payable	5,556,823	-	(145,495)	5,411,328	149,535
2016 USDA Bond Payable	801,921	-	(18,446)	783,475	18,866
2012 USDA Bond Payable	443,922	-	(56,576)	387,346	58,297
	<u>\$ 13,005,952</u>	<u>\$ 6,196,474</u>	<u>\$ (430,761)</u>	<u>\$ 18,771,665</u>	<u>\$ 533,811</u>

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

Year Ending December 31,	Principal	Interest	Total
2026	\$ 533,811	\$ 304,157	\$ 837,968
2027	822,393	335,149	1,157,542
2028	738,033	320,454	1,058,487
2029	750,470	308,017	1,058,487
2030	763,184	295,303	1,058,487
2031-2035	3,434,626	1,291,233	4,725,859
2036-2040	3,662,707	984,128	4,646,835
2041-2045	4,134,633	644,178	4,778,811
2046-2050	2,841,797	294,117	3,135,914
2051-2055	917,916	54,637	972,553
Thereafter	172,095	9,446	181,541
	<u>\$ 18,771,665</u>	<u>\$ 4,840,819</u>	<u>\$ 23,612,484</u>

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 5 – PENSION

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

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 the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. T

The general administration and responsibility for the proper operation of the System 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 Organization of Finance and Administration, and four additional board positions that were added in Act 686 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other by the Senate.

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 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but 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), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service 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.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 5 (continued)

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2025. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

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. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2025 and continuing each year up to a maximum rate of 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 Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The collective Net Pension Liability of \$2,098,789,001 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. Deferred outflows of resources and deferred inflows of resources related to pensions for your employer are as follows:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 87,932	\$ (85,219)
Changes in proportion and differences between employer contributions and proportionate share of contribution	-	(73,520)
Changes of assumptions	49,245	-
Contributions subsequent to measurement date	283,463	-
Net difference between projected and actual earnings on pension plan investments	-	(188,272)
Total for City	\$ 420,640	\$ (347,011)
Department pro-rata allocation	30%	30%
Total for Department	\$ 126,192	\$ (104,103)

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 5 (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in your financial statements as follows:

	2026	2027	2028	2029	2030	Thereafter
Total for City	\$341,049	\$(259,344)	\$(187,312)	\$(104,227)	\$ -	\$ -
Department pro-rata allocation	30%	30%	30%	30%	30%	30%
Total for Department	<u>\$102,315</u>	<u>\$ (77,803)</u>	<u>\$ (56,194)</u>	<u>\$ (31,268)</u>	<u>\$ -</u>	<u>\$ -</u>

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 of Percent 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)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% 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	3.6130

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)

December 31, 2025

NOTE 5 (continued)

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 (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 return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2025 are summarized in the table below:

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%
Total	100%	
Total Real Rate of Return		5.02%
Plus: Price Inflation- Actuary Assumption		2.50%
Net Expected Return		7.52%

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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6. %) or 1-percentage-point higher (8%) than the current rate:

Sensitivity of Discount Rate			
	1% Lower 6.00%	Discount Rate 7.00%	1% Higher 8.00%
Total for City	\$ 5,296,256	\$ 2,838,079	\$ 811,042
Department pro-rata allocation	30%	30%	30%
Total for Department	\$ 1,588,877	\$ 851,424	\$ 243,313

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS (continued)
December 31, 2025

NOTE 6 – 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.

NOTE 7 – DEPARTURE FROM GENERALLY ACCEPTED ACCOUNTING PROCEDURES

Management has elected to omit the Budget to Actual Comparison and the Management Discussion and Analysis of the Organization from the financial statements which are required by GAAP.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Years Ended December 31, 2025 through 2015

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.041%	0.042%	0.042%	0.042%	0.042%	0.042%	0.042%	0.041%	0.041%	0.042%
Proportionate share of the net pension liability	\$ 851,424	\$ 1,033,278	\$ 1,220,107	\$ 1,144,667	\$ 324,677	\$ 1,213,983	\$ 1,004,247	\$ 900,080	\$ 1,053,788	\$ 992,915
Covered - employee payroll	\$ 879,896	\$ 868,581	\$ 897,554	\$ 855,321	\$ 836,793	\$ 754,317	\$ 750,101	\$ 745,022	\$ 768,631	\$ 746,137
Proportionate share of the net pension liability as percentage of covered - employee payroll	96.76%	118.96%	135.94%	133.83%	38.80%	160.94%	133.88%	120.81%	137.10%	133.07%
Plan's fiduciary net position as a percentage of the total pension liability	85.04%	81.61%	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%

See independent auditor's report.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF CONTRIBUTIONS
For the Years Ended December 31, 2025 through 2015

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	\$ 148,779	\$ 144,529	\$ 142,164	\$ 135,945	\$ 129,191	\$ 126,724	\$ 122,036	\$ 112,731	\$ 106,570	\$ 109,082
Contributions in relation to the contractually required contribution	\$(148,779)	\$(144,529)	\$(142,164)	\$(135,945)	\$(129,191)	\$(126,724)	\$(122,036)	\$(112,731)	\$(106,570)	\$(109,082)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Department's covered - employee payroll	\$ 879,896	\$ 868,581	\$ 897,554	\$ 855,321	\$ 836,793	\$ 754,317	\$ 750,101	\$ 745,022	\$ 768,631	\$ 746,137
Contributions as a percentage of covered - employee payroll	16.91%	16.64%	15.84%	15.89%	15.44%	16.80%	16.27%	15.13%	13.86%	14.62%

See independent auditor's report.

SUPPLEMENTARY INFORMATION

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Plant operations and distributions</u>	
Salaries and wages	\$ 704,152
Payroll taxes	53,386
Retirement	50,146
Health insurance	114,126
Repairs and maintenance	290,950
Utilities	512,346
Insurance	157,523
Fuel charges	49,777
Equipment rentals	38,012
License, permits, fees	20,556
Operating supplies	290,988
Chemicals	565,214
Total plant operations and distributions	<u>2,847,176</u>
<u>General and administrative</u>	
Salaries and wages	176,038
Payroll taxes	13,346
Retirement	12,537
Health insurance	28,531
Office supplies	-
Professional fees	45,000
Training	5,150
Other expenses	15,633
Bad debt	57,405
Total general and administrative	<u>353,640</u>
<u>Depreciation</u>	<u>1,151,752</u>
Total operating expenses	<u><u>\$ 4,352,568</u></u>

See independent auditor's report.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF SYSTEM INFORMATION
For the Year Ended December 31, 2025

Number of Water Users	3,941
Number of Sewer Users	3,766

Annual billable gallons of water	82,733,500
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Date of last rate study:	N/A
Next required date:	July 1, 2026

Met the Board/Council training requirements:	Yes
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Debt Service Coverage Ratio (1.05 minimum required)

Net Income (loss)	\$ 3,850,550
Add: Depreciation	1,151,752
Add: Interest expense	300,683
Add: Non operating expense	-
Add or subtract: GASB 68 pension expense adjustment	(72,118)
Subtract: Interest income	(64,323)
Subtract: Non operating income	<u>(3,224,617)</u>

Total	\$ 1,941,927
Divided by next year principal & interest	<u>\$ 837,968</u>

Debt service coverage ratio	<u><u>2.32</u></u>
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Free Cash Flow Determination

Total unrestricted cash	\$ 2,510,799
One twelfth of total expenses	<u>(387,771)</u>
Excess / (deficient) cash	<u><u>\$ 2,123,028</u></u>

See independent auditor's report.

GOVERNMENTAL AUDITING SECTION

SEARCY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

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MONTICELLO, ARKANSAS 71657
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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 City Council and Management of the
City of Stuttgart, Arkansas Water & Sewer Department

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 Stuttgart, Arkansas Water & Sewer Department, (the "Organization"), which comprise the statement of net position, statement of revenues, expenses, and changes in net position, and statement of cash flows as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated July 9, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Searcy & Associates, LLC
Monticello, Arkansas
July 9, 2026

SEARCY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

JIM SEARCY, M.B.A., C.P.A.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council and Management of the
City of Stuttgart, Arkansas Water & Sewer Department

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Stuttgart, Arkansas Water & Sewer Department's, (the "Organization"), compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2025. the Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal

control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Monticello, Arkansas
July 9, 2026

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF FEDERAL EXPENDITURES
For the Year Ended December 31, 2025

<u>Federal CFDA Number</u>	<u>Program Name</u>	<u>Grantor/Pass-through Agency</u>	<u>Qualifying Expenditures</u>
<u>U.S. Department of Treasury</u>			
21.027	Coronavirus State and Local Fiscal Recovery Funds	Arkansas Natural Resource Commission	<u>3,224,617</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,224,617</u>

See independent auditor's report and accompanying notes to the schedule.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
NOTES TO THE SCHEDULE OF FEDERAL EXPENDITURES
For the Year Ended December 31, 2025

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization, under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the net position; revenue, expenses, and changes in net position; or cash flows of the Organization.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained by the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available and applicable.
- 3) There were no federal awards passed through to subrecipients.
- 4) The Organization has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.
- 5) Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

See independent auditor's report.

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2025

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued on whether financial statements audited
were prepared in accordance with accounting principles generally
accepted in the United State of America Unmodified

Internal control over financial reporting:
Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered
to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered
to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number: 21.027 – Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Did auditee qualify as a low-risk auditee? _____ Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

None identified

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None identified

CITY OF STUTTGART, ARKANSAS WATER & SEWER DEPARTMENT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2025

FINANCIAL STATEMENT FINDINGS

Prior Year Finding Number	Finding Title	Status
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None Identified

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Prior Year Finding Number	Finding Title	Status
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None Identified