

City of Wooster
Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Financial Statements
December 31, 2025 and 2024

(With Independent Auditor's Report Thereon)

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)
Wooster, Arkansas

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Wooster Water Service Department, (a component unit of the City of Wooster, Arkansas), (the Department), as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the City of Wooster Water Service Department's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Department as of December 31, 2025, and 2024, and the changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis for Opinion

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 the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Department's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

To the City Council
City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Auditor's Responsibility 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 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 GAAS 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 Department'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 Department'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 Supplemental Information

Management has omitted the Management's Discussion and Analysis that U.S. GAAP require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

To the City Council
City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2026, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is 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 Department'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 the Department's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
July 27, 2026

Financial Statements

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Statements of Net Position
December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 604,883	\$ 670,574
Accounts receivable	144,374	133,831
Accrued water revenue	26,454	45,021
Prepaid expenses and construction costs	21,281	21,281
Inventory	9,929	18,915
Total Unrestricted Current Assets	<u>806,921</u>	<u>889,622</u>
Restricted Assets		
Cash and cash equivalents	<u>400,085</u>	<u>388,124</u>
Total Restricted Assets	<u>400,085</u>	<u>388,124</u>
Total Current Assets	<u>1,207,006</u>	<u>1,277,746</u>
Capital Assets, Net	<u>6,412,858</u>	<u>6,349,722</u>
TOTAL ASSETS	<u><u>\$ 7,619,864</u></u>	<u><u>\$ 7,627,468</u></u>

(Continued)

See accompanying notes to financial statements.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Statements of Net Position (Continued)
December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 68,733	\$ 55,149
Interest payable	4,363	1,801
Sales tax payable	6,994	7,945
Wages payable	10,374	10,233
Vacation payable	16,045	7,054
Customer meter deposits	205,262	197,158
Current maturities of long-term debt	78,294	74,864
Total Current Liabilities	<u>390,065</u>	<u>354,204</u>
Liabilities Payable from Restricted Assets		
Interest payable	7,838	10,400
Current maturities of long-term debt	175,889	164,578
Total Liabilities Payable from Restricted Assets	<u>183,727</u>	<u>174,978</u>
Long-Term Liabilities		
Long-term debt - less current maturities	2,340,563	2,604,947
Total Long-Term Liabilities	<u>2,340,563</u>	<u>2,604,947</u>
Total Liabilities	<u>2,914,355</u>	<u>3,134,129</u>
Net Position		
Net investment in capital assets	3,818,112	3,505,333
Restricted		
Debt service reserve fund	187,692	163,434
Depreciation reserve fund	212,393	224,690
Unrestricted	487,312	599,882
Total Net Position	<u>4,705,509</u>	<u>4,493,339</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 7,619,864</u></u>	<u><u>\$ 7,627,468</u></u>

See accompanying notes to financial statements.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Operating Revenues		
Water revenues	\$ 1,576,520	\$ 1,516,878
Sewer revenues	33,645	21,593
Late fees	20,209	20,249
Fee and permit revenue	121,022	109,218
Miscellaneous	14,995	22,475
Total Operating Revenues	<u>1,766,391</u>	<u>1,690,413</u>
Operating Expenses		
Bad debts	1,761	917
Cell phone meters	19,512	16,929
Depreciation	280,726	256,953
Fuel and oil	24,368	22,503
Insurance	75,358	67,510
Miscellaneous	3,094	13,862
Office supplies	601	542
Payroll taxes	29,358	28,024
Postage	7,033	7,009
Professional fees and dues	88,606	25,004
Repairs and maintenance	160,072	148,321
Retirement	9,541	5,730
Salaries and wages	393,676	380,754
Uniforms	659	2,109
Utilities and telephone	26,162	22,665
Water purchases	764,201	617,897
Total Operating Expenses	<u>1,884,728</u>	<u>1,616,729</u>
Operating Income (Loss)	<u>(118,337)</u>	<u>73,684</u>
Other Revenues (Expenses)		
Interest income	20,431	19,756
Interest expense	(75,485)	(91,385)
Total Other Revenues (Expenses)	<u>(55,054)</u>	<u>(71,629)</u>
Income (Loss) Before Contributions in Aid of Construction	<u>(173,391)</u>	<u>2,055</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>385,561</u>	<u>578,186</u>
Increase in Net Position	212,170	580,241
NET POSITION - BEGINNING OF YEAR	<u>4,493,339</u>	<u>3,913,098</u>
NET POSITION - END OF YEAR	<u>\$ 4,705,509</u>	<u>\$ 4,493,339</u>

See accompanying notes to financial statements.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Statements of Cash Flows
For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 1,774,415	\$ 1,683,804
Cash payments to suppliers for goods	(1,180,927)	(997,402)
Cash payments to employees for services	(392,324)	(366,557)
Net increase in meter deposits	<u>8,104</u>	<u>12,418</u>
Net Cash Provided by Operating Activities	<u>209,268</u>	<u>332,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on certificates of deposit	<u>20,431</u>	<u>19,756</u>
Net Cash Provided by Investing Activities	<u>20,431</u>	<u>19,756</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(343,862)	(599,184)
Proceeds from capital contributions	385,561	578,186
Repayment of long-term debt	(249,643)	(242,748)
Interest paid on long-term debt	<u>(75,485)</u>	<u>(91,385)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(283,429)</u>	<u>(355,131)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,730)	(3,112)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,058,698</u>	<u>1,061,810</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>1,004,968</u></u>	<u><u>1,058,698</u></u>
Cash and Cash Equivalents Reconciliation		
Cash and cash equivalents	604,883	670,574
Restricted cash and cash equivalents	<u>400,085</u>	<u>388,124</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,004,968</u></u>	<u><u>\$ 1,058,698</u></u>

(Continued)

See accompanying notes to financial statements.

City of Wooster Water Service Department

(A Component Unit of the City of Wooster, Arkansas)

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (118,337)	\$ 73,684
Adjustments to Reconcile Operating (Loss) Income to Net Cash Provided by Operating Activities		
Depreciation	280,726	256,953
Changes in assets and liabilities		
Accounts receivable	(10,543)	(6,609)
Accrued water revenue	18,567	-
Prepaid expenses	-	(18,335)
Inventory	8,986	(9,571)
Accounts payable	13,584	17,376
Sales tax payable	(951)	772
Wages payable	141	5,575
Vacation payable	8,991	-
Customer meter deposits	8,104	12,418
Net cash provided by operating activities	<u>\$ 209,268</u>	<u>\$ 332,263</u>

See accompanying notes to financial statements.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

City of Wooster Water Service Department (the Department) is a component unit of the City of Wooster, Arkansas. A component unit is a legally separate organization for which the City's Mayor and City Council are financially accountable. The Mayor of the City is the principal officer of the Department. The principal functions of the Department include operating and maintaining the water and sewer systems of residential, commercial and institutional customers.

These financial statements are intended to present only the financial position, results of operations and cash flows attributable to the Department and are not intended to, and do not, reflect the financial position, results of operations and cash flows of the City of Wooster, Arkansas.

Basis of Accounting

The Department is operated as an enterprise fund. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements of the Department are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to enterprise funds of governmental entities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Basis of Presentation

The presentation of the Department's financial statements follows the requirements of GASB Statement No. 34, Basic Financial Statements applicable to enterprise funds, as amended. In accordance with the requirements of GASB Statement No. 34, the Department's net position is categorized into net investment in capital assets, restricted bond reserve funds and unrestricted, as applicable. In addition, operating revenues and expenses derived from or related directly to providing community water and sewer services are distinguished from nonoperating revenues and expenses for purposes of presentation on the Department's statements of revenues, expenses and changes in net position. Operating revenues consist primarily of user charges, and operating expenses include the costs of maintaining and operating the water and sewer system.

Cash and Cash Equivalents

The Department's cash and cash equivalents are considered to be all cash on hand, demand deposit accounts, certificates of deposit, and all short-term investments with original maturities of three months or less from the date of acquisition. Total cash and cash equivalents are as follows:

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

	2025	2024
Unrestricted - cash	\$ 399,314	473,323
Unrestricted - certificates of deposit	205,569	197,251
Total Unrestricted	604,883	670,574
Restricted - cash	335,634	323,217
Restricted - certificates of deposit	64,451	64,907
Total Restricted	400,085	388,124
Total Cash and Cash Equivalents	\$ 1,004,968	\$ 1,058,698

Accounts Receivable

Accounts receivable consists of credit extended to the Department's customers in the normal course of business. The Department considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collection on accounts previously written off are included in income when received. Bad debt expense was \$1,761 and \$917 for the years ended 2025 and 2024, respectively.

Inventory

Inventories are stated at the lower of cost or market determined by the specific identification method. Inventory consists of materials in stock.

Capital Assets

Capital assets are recorded at historical cost. Donated capital assets are reported at estimated fair market value at the date of donation.

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 expensed as incurred. Assets contributed are recorded at fair value at the date contributed.

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

Collection and treatment facilities	10-40 years
Vehicles and Equipment	4-10 years

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

As required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, management evaluates events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. If it is determined that a capital asset is impaired and that impairment is other than temporary, impairment losses are recorded in accordance with GASB No. 42. There were no impairment losses recorded for the years ended December 31, 2025 and 2024.

Contributions in Aid of Construction

Contributions in aid of construction consist of funds received for the purpose of bettering and improving the water and sewer systems. The majority of the contributions were provided by Faulkner County through a combination of grants and direct funding. These funds were designated for the extension of water and sewer services to underserved areas and to support regional growth initiatives. The remaining aid was contributed by local real estate developers as part of subdivision development agreements. These contributions were used to fund the installation of water mains, sewer lines, and lift stations necessary to serve new residential and commercial developments.

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the principal operations of the Department. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Department's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Compensated Absences

The Department's employees earn paid time off benefits on the basis of length of service time. Subject to certain restrictions, employees are compensated for unused paid time off upon leaving the Department's employment. All paid time off is accrued when incurred in the Department's financial statements.

Revenue Recognition

Revenues for the water and sewer system are recognized in the period during which the related services are provided. Accounts receivable and revenues reported on the Department's financial statements include an estimate of charges for services provided but unbilled at year end.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates (Continued)

The useful lives of capital assets are significant estimates used to determine the amount of depreciation expense and the net book value of capital assets in service reported in the Department's financial statements.

Reclassifications

Certain 2024 amounts have been reclassified to conform to the 2025 presentation.

Recently Issued Accounting Standards

In April 2024, GASB issued Statement No. 103 – Financial Reporting Model Improvements (GASB Statement No. 103) to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing an entity's accountability. It also addresses certain application issues in the financial reporting model. The requirements of GASB Statement No. 103 are effective for the Department's fiscal year ending December 31, 2026. Management is currently evaluating the potential effect that the adoption will have on the Department's financial statement presentation and related disclosures.

In September 2024, the GASB issued Statement No. 104 – Disclosure of Certain Capital Assets (GASB Statement No. 104), which amends the disclosure requirements for certain types of capital assets. The Statement requires that certain capital assets, such as lease assets, intangible assets, and capital assets held for sale, be disclosed separately from other capital assets in the notes to the financial statements. It also establishes specific criteria for an asset to be classified as "held for sale" and requires a description of the facts and circumstances leading to the expected sale. The requirements of GASB Statement No. 104 are effective for the Department's fiscal year ending December 31, 2026. Management is currently evaluating the potential effect that the adoption will have on the Department's financial statement presentation and related disclosures.

NOTE 2: RESTRICTED ASSETS

Under the terms of certain ordinances, certain restricted funds must be maintained as follows:

	<u>2025</u>	<u>2024</u>
Bond and note reserve funds:		
Debt service reserve funds	\$ 187,692	\$ 163,434
Other restricted assets:		
Depreciation reserves	212,393	224,690
Total Restricted Cash and Cash Equivalents	<u><u>\$ 400,085</u></u>	<u><u>\$ 388,124</u></u>

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 2: RESTRICTED ASSETS (Continued)

The Department is required under note payable agreements with the United States Department of Agriculture (USDA) Rural Development and the Arkansas Natural Resources Commission (ANRC) to maintain debt service reserves for the purpose of paying principal and interest on the notes to the extent monies in the revenue fund on any payment date are insufficient for such purposes. At December 31, 2025 and 2024, the Department had adequately funded its required reserves.

The depreciation funds were established under note payable agreements with the USDA Rural Development and the ANRC for the purpose of funding major repairs, damage caused by unforeseen catastrophes, and necessary replacements to the systems. At December 31, 2025 and 2024, the Department had adequately funded its required reserves.

NOTE 3: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance 12/31/24	Transfers In/ Additions	Transfers Out/ Disposals	Balance 12/31/25
Non-depreciable capital assets				
Land	\$ 33,319	\$ -	\$ -	\$ 33,319
Total capital assets not being depreciated	33,319	-	-	33,319
Capital assets being depreciated				
Office building	117,116	-	-	117,116
Equipment and storage building	1,400,944	80,300	-	1,481,244
Water system	5,056,275	3,408	-	5,059,683
Sewer system	2,466,273	260,154	-	2,726,427
Total depreciable capital assets	9,040,608	343,862	-	9,384,470
Less accumulated depreciation				
Office building	(65,137)	(3,069)	-	(68,206)
Equipment and storage building	(826,755)	(97,287)	-	(924,042)
Water system	(1,744,344)	(114,857)	-	(1,859,201)
Sewer system	(87,969)	(65,513)	-	(153,482)
Total accumulated depreciation	(2,724,205)	(280,726)	-	(3,004,931)
Total capital assets being depreciated, net	6,316,403	63,136	-	6,379,539
Total Capital Assets - net	\$ 6,349,722	\$ 63,136	\$ -	\$ 6,412,858

(Continued)

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 3: CAPITAL ASSETS (Continued)

	Balance 12/31/23	Transfers In/ Additions	Transfers Out/ Disposals	Balance 12/31/24
Non-depreciable capital assets				
Land	\$ 33,319	\$ -	\$ -	\$ 33,319
Total capital assets not being depreciated	33,319	-	-	33,319
Capital Assets being depreciated				
Office building	117,116	-	-	117,116
Equipment and storage building	1,400,944	-	-	1,400,944
Water system	5,034,300	21,975	-	5,056,275
Sewer system	1,889,064	577,209	-	2,466,273
Total depreciable capital assets	8,441,424	599,184	-	9,040,608
Less accumulated depreciation				
Office building	(61,928)	(3,209)	-	(65,137)
Equipment and storage building	(738,554)	(88,201)	-	(826,755)
Water system	(1,629,884)	(114,460)	-	(1,744,344)
Sewer system	(36,886)	(51,083)	-	(87,969)
Total accumulated depreciation	(2,467,252)	(256,953)	-	(2,724,205)
Total capital assets being depreciated, net	5,974,172	342,231	-	6,316,403
Total Capital Assets - net	\$ 6,007,491	\$ 342,231	\$ -	\$ 6,349,722

NOTE 4: NOTES PAYABLE

Notes payable consisted of the following:

	2025	2024
Long-Term Notes Payable		
4.14% note payable to a finance company, due in variable monthly installments including interest, secured by equipment, due in April 2027.	\$ 36,340	\$ 59,474
3.80% note payable to First Service Bank, due in monthly installments of \$3,233, including interest, secured by equipment, due in December 2027.	67,491	99,183
5.00% note payable to Arkansas Natural Resources Commission, due in annual installments of \$2,914 including interest, secured by the assets and revenue generated from the operation of the project, due in November 2028.	7,937	10,334

(Continued)

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4: NOTES PAYABLE (Continued)

	<u>2025</u>	<u>2024</u>
5.00% note payable to Arkansas Natural Resources Commission, due in annual installments of \$2,914 including interest, secured by the assets and revenue generated from the operation of the project, due in November 2028.	\$ 7,937	\$ 10,334
7.50% note payable to USDA Rural Development, due in monthly installments of \$363 including interest, secured by issuance of water revenue bonds which are secured by statutory mortgage lien upon the water system land, plant, and equipment, due in March 2029.	694	4,827
0.50% bond payable to Arkansas Natural Resources Commission and Arkansas Development Finance Authority, servicing fee due semiannually until October 2019, then due in semiannual installments of \$25,651 consisting of principal, and a servicing fee (0.5%) beginning October 2020. Secured by gross revenues of the department, due in April 2030.	227,901	277,896
5.00% note payable to Arkansas Natural Resources Commission, interest is waived for ten years and payment is deferred for ten years, then due in annual installments of \$16,530 including interest, secured by the assets and revenue generated by the operation of the project, due in December 2031.	83,901	95,649
2.50% bond payable to Arkansas Natural Resources Commission and Arkansas Development Finance Authority, interest and servicing fee due semiannually until October 2019, then due in semiannual installments of \$78,207 consisting of principal, interest (1.5%) and servicing fee (1%) beginning in April 2020. Secured by gross revenues of the department, due in October 2039.	1,835,483	1,946,494
4.50% note payable to USDA Rural Development, interest only payable for the first two years, then due in monthly installments of \$2,348 including interest, secured by the assets and revenue generated from the operation of the project, due in August 2042.	327,062	340,198
Total long-term debt	<u>2,594,746</u>	<u>2,844,389</u>
Less: current maturities	<u>254,183</u>	<u>239,442</u>
Long-term debt, less current maturities	<u>\$ 2,340,563</u>	<u>\$ 2,604,947</u>
Changes in notes payables consisted of the following:		
Total long-term debt - beginning of year	\$ 2,844,389	\$ 3,087,137
Repayments of long-term debt	<u>(249,643)</u>	<u>(242,748)</u>
Total long-term debt - end of year	<u>\$ 2,594,746</u>	<u>\$ 2,844,389</u>

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 4: NOTES PAYABLE (Continued)

Aggregate maturities of long-term debt are as follows:

For the years ended December 31	Principal	Interest	Total
2026	\$ 254,183	\$ 68,615	\$ 322,798
2027	239,654	61,955	301,609
2028	202,198	56,458	258,656
2029	200,829	51,614	252,443
2030-2034	792,153	189,330	981,483
2035-2039	840,474	78,818	919,292
2040-2044	65,255	3,787	69,042
	\$ 2,594,746	\$ 510,577	\$ 3,105,323

NOTE 5: CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Department to concentration of credit risk consists primarily of cash and cash equivalents, which are held at financial institutions in Arkansas, and accounts receivable. The aggregate balances of the cash and cash equivalent accounts at any one financial institution are insured up to Federal Deposit Insurance Corporation (FDIC) limits, and the excess of the balances over FDIC insurance limits are fully collateralized with securities pledged by the financial institutions and held in the name of the Department. Collateral securities are maintained pursuant to the terms of collateral security custody agreements executed by the pledging financial institutions and the Department may not be released without the consent of the Department. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers with relatively small account balances and required meter deposits.

NOTE 6: RETIREMENT PLAN

In July 2006, the Department adopted a savings incentive match plan (SIMPLE) in which employee and employer contributions are contributed to the employees' individual retirement accounts. Any employee who has received at least \$5,000 in compensation in at least one preceding calendar year is eligible to participate in the plan. The Department will match employees' contributions up to 3% of their compensation for the calendar year. All contributions made under the SIMPLE IRA plan are fully vested. Total employer contributions for the years ended December 31, 2025 and 2024, were \$9,541 and \$5,730, respectively.

NOTE 7: WATER REVENUE

There were approximately 1,996 and 1,963 customers as of December 31, 2025 and 2024, respectively. The gross revenues received from water service, sewer service, connection and reconnection fees, plumbing inspections, service, and late fees were \$1,766,391 and \$1,690,413 for the years ended December 31, 2025 and 2024, respectively.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 7: WATER REVENUE (Continued)

The following water rates were in effect for 2025 and 2024:

January 1, 2025 to December 31, 2025		January 1, 2024 to December 31, 2024	
Inside City Limits:		Inside City Limits:	
Gallons per Month	Rates	Gallons per Month	Rates
First 1,000 gallons	\$31.02 minimum	First 1,000 gallons	\$31.02 minimum
Over 1,000 gallons	\$8.26 per 1,000	Over 1,000 gallons	\$7.66 per 1,000
Outside City Limits:		Outside City Limits:	
Gallons per Month	Rates	Gallons per Month	Rates
First 1,000 gallons	\$33.02 minimum	First 1,000 gallons	\$33.02 minimum
Over 1,000 gallons	\$8.78 per 1,000	Over 1,000 gallons	\$8.18 per 1,000

NOTE 8: RELATED PARTIES

Certain activities occur periodically between the Department and other units of the City of Wooster requiring transfer of funds between the units and reimbursement of expenses. During the years ended December 31, 2025 and 2024, there were no transfers of funds between entities.

NOTE 9: RISK MANAGEMENT

The Department is exposed to various levels of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department has purchased Insurance to address these risks. There have been no significant reductions in the Department's coverage during the years ended December 31, 2025 and 2024. In addition, there have been no settlements in excess of the Department's coverage in any of the prior three fiscal years.

NOTE 10: RISKS AND UNCERTAINTIES

The Department's financial performance is subject to various risks and uncertainties. These risks include, but are not limited to, economic conditions, market fluctuations, regulatory changes, and geopolitical events. In particular, recent developments such as the potential imposition of tariffs and certain ongoing geopolitical events, have introduced additional uncertainties that could impact the Department's operations and financial results.

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024

NOTE 11: INSURANCE

The insurance policies in force at December 31, 2025, are as follows:

<u>Company</u>	<u>Policy</u>	<u>Expiration</u>	<u>Amount of Coverage</u>
Owners Insurance Co.	General Liability	11/30/2026	\$ 5,460,000
Owners Insurance Co.	Commercial Property	5/3/2026	\$ 2,035,000
Arkansas Municipal League	Auto	5/12/2026	\$ 1,108,921
Arkansas Government Bonding Board	Employee Dishonesty	4/4/2026	\$ 250,000

NOTE 12: CONTINGENCIES

The Department has opted to be a reimbursable employer for state unemployment tax purposes. Under this option, the Department pays a pro rata share of the actual costs of unemployment benefits to its former employees. There were no benefits paid for the years ended December 31, 2025 and 2024.

Other Required Reports



**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***

City Council
City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)
Wooster, 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 City of Wooster Water Service Department (a component unit of the City of Wooster, Arkansas), (the Department), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated July 27, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's system of 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the schedule of findings as item 2025-01 to be a material weakness.

Report on Internal Control Over Financial Reporting (*Continued*)

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

The Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings. The Department's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
July 27, 2026

City of Wooster Water Service Department
(A Component Unit of the City of Wooster, Arkansas)

Schedule of Audit Results and Schedule of Findings and Responses
For the Year Ended December 31, 2025

Section I - Summary of Auditor's Results

Type of Auditor's Report Issued on Financial Statements:

Unmodified

Internal Control over Financial Reporting

Material Weakness(es) Identified?

 X Yes No

Significant Deficiency(ies) Identified?

 Yes X No

Noncompliance Material to Financial Statements Noted?

 Yes X No

Finding 2025-001

Segregation of duties.

Criteria

A good system of internal control provides for a proper segregation of accounting functions. Although proper segregation is not always possible in a small system, segregation to the extent possible can and should be implemented to reduce the risk of errors or fraud.

Condition

During the year ended December 31, 2025, there were inherent limitations in the Department's controls primarily due to the limited number of personnel.

Cause

Internal controls showed a lack of segregation of duties primarily due to the limited number of personnel. This will likely be an ongoing issue due to its impracticality from a cost benefit standpoint.

Effect

The limitations could allow the misappropriation of Department funds.

Recommendation

We recommend that management take steps to develop and implement new procedures to improve segregation of duties.

Management Response

Management diligently attempts to segregate duties, but it is beyond current staffing capabilities.