



**City of Lonoke, Arkansas  
Water and Sewer System**

**Financial Statements  
December 31, 2023 and 2022  
(With Independent Auditor's Report Thereon)**

# City of Lonoke, Arkansas Water and Sewer System

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the City Council  
and Mayor Wayne McGee  
City of Lonoke, Arkansas

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of the **City of Lonoke, Arkansas Water and Sewer System** (the System) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the System'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 System as of December 31, 2023 and 2022, and the changes in financial position and cash flows thereof 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 audits in accordance with auditing standards generally accepted in the United States of America (U.S. 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 System 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.

#### ***Emphasis of Matter – Other***

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not present fairly the financial position of the City of Lonoke, Arkansas as of December 31, 2023 and 2022, the changes in its financial position or its cash flows for the years then ended in accordance with U.S. GAAP. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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.

The Honorable Members of the City Council  
and Mayor Wayne McGee  
City of Lonoke, Arkansas

## **Report on the Audit of the Financial Statements (Continued)**

### ***Responsibilities of Management for the Financial Statements (Continued)***

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 System's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. 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 U.S. GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 System'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 System'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 audits.

The Honorable Members of the City Council  
and Mayor Wayne McGee  
City of Lonoke, Arkansas

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a simpler, blocky font.

Little Rock, Arkansas  
June 28, 2024

## **Financial Statements**

# City of Lonoke, Arkansas Water and Sewer System

## Statements of Net Position December 31, 2023 and 2022

	2023	2022
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,368,341	\$ 1,160,121
Certificates of deposit	196,357	189,209
Accounts and other receivables, net	148,828	146,468
Prepaid expenses	8,943	8,224
<b>Total Current Assets</b>	1,722,469	1,504,022
<b>Restricted Assets</b>		
Cash	603,949	538,582
<b>Property, Plant and Equipment, Net</b>	22,077,184	22,430,932
<b>TOTAL ASSETS</b>	\$ 24,403,602	\$ 24,473,536
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities Payable from Current Assets</b>		
Accounts payable	\$ 39,408	\$ 33,367
Accrued payroll liabilities	22,556	26,061
Customer deposits	129,045	123,835
<b>Total Current Liabilities Payable from Current Assets</b>	191,009	183,263
<b>Current Liabilities Payable from Restricted Assets</b>		
Accrued interest payable	1,032	1,586
Current portion of long-term debt	89,543	83,452
<b>Total Current Liabilities Payable from Restricted Assets</b>	90,575	85,038
<b>Long-Term Debt, Less Current Portion</b>	72,283	161,826
<b>Total Liabilities</b>	353,867	430,127
<b>Net Position</b>		
Net investment in property, plant and equipment	21,915,358	22,185,654
Restricted for improvements to property, plant and equipment	345,593	292,810
Restricted for debt service	257,324	244,186
Unrestricted	1,531,460	1,320,759
<b>Total Net Position</b>	24,049,735	24,043,409
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 24,403,602	\$ 24,473,536

See accompanying notes to financial statements.

# City of Lonoke, Arkansas Water and Sewer System

## Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>OPERATING REVENUES</b>		
Water sales	\$ 910,972	\$ 897,366
Wastewater treatment services	424,056	413,582
Miscellaneous	66,573	39,439
<b>Total Operating Revenues</b>	<b>1,401,601</b>	<b>1,350,387</b>
<b>OPERATING EXPENSES</b>		
Salaries and fringe benefits	321,918	354,282
Depreciation	492,430	378,723
Utilities	75,263	115,525
Repairs and maintenance	127,172	201,876
Professional fees	60,976	61,312
Operating supplies	69,622	93,507
Insurance	61,646	54,632
Vehicle operations	29,692	34,605
Office supplies	27,565	18,627
Dues and subscriptions	41,827	41,067
Uniforms	5,982	8,519
Bad debt expense	2,442	2,037
Travel and education	1,911	175
Miscellaneous	41,660	53,248
<b>Total Operating Expenses</b>	<b>1,360,106</b>	<b>1,418,135</b>
<b>Operating Income (Loss)</b>	<b>41,495</b>	<b>(67,748)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest earned	11,781	3,745
Interest expense	(10,545)	(14,381)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>1,236</b>	<b>(10,636)</b>
<b>Income (Loss) Before Transfers</b>	<b>42,731</b>	<b>(78,384)</b>
<b>NET TRANSFERS (TO) FROM THE CITY OF LONOKE</b>	<b>(36,405)</b>	<b>2,295,279</b>
<b>INCREASE IN NET POSITION</b>	<b>6,326</b>	<b>2,216,895</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>24,043,409</b>	<b>21,826,514</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 24,049,735</b>	<b>\$ 24,043,409</b>

See accompanying notes to financial statements.



# City of Lonoke, Arkansas Water and Sewer System

## Statements of Cash Flows Years Ended December 31, 2023 and 2022

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Receipts from</b>		
Customers	\$ 1,399,577	\$ 1,343,567
Customer deposits	18,300	21,425
<b>Total Operating Receipts</b>	1,417,877	1,364,992
<b>Disbursements for</b>		
Salaries and fringe benefits	325,423	351,473
Goods and services	553,526	737,344
<b>Total Operating Disbursements</b>	878,949	1,088,817
<b>Net Cash Provided by Operating Activities</b>	538,928	276,175
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Net transfers (to) from the City of Lonoke	(36,405)	2,295,279
<b>Net Cash (Used) Provided by Noncapital Financing Activities</b>	(36,405)	2,295,279
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments of long-term debt	(83,452)	(82,409)
Purchases of property, plant and equipment	(138,682)	(2,617,723)
Interest paid	(11,099)	(14,932)
<b>Net Cash Used by Capital and Related Financing Activities</b>	(233,233)	(2,715,064)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of certificates of deposit, including income reinvested	(196,357)	(189,209)
Proceeds from sale of certificates of deposit	189,209	187,817
Interest income received	11,445	3,690
<b>Net Cash Provided by Investing Activities</b>	4,297	2,298
<b>NET INCREASE (DECREASE) IN CASH</b>	273,587	(141,312)
<b>CASH, BEGINNING OF YEAR</b>	1,698,703	1,840,015
<b>CASH, END OF YEAR</b>	\$ 1,972,290	\$ 1,698,703

*(Continued)*

See accompanying notes to financial statements.

# City of Lonoke, Arkansas Water and Sewer System

## Statements of Cash Flows *(Continued)* Years Ended December 31, 2023 and 2022

	2023	2022
<b>RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION</b>		
Cash	\$ 1,368,341	\$ 1,160,121
Restricted cash	603,949	538,582
<b>Total Cash</b>	<b>\$ 1,972,290</b>	<b>\$ 1,698,703</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>Operating Income (Loss)</b>	\$ 41,495	\$ (67,748)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Depreciation	492,430	378,723
Bad debt expense	2,442	2,037
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(4,466)	(8,857)
Prepaid expenses	(719)	(2,315)
Accounts payable	6,041	(32,190)
Accrued payroll liabilities	(3,505)	2,809
Customer deposits	5,210	3,716
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 538,928</b>	<b>\$ 276,175</b>

See accompanying notes to financial statements.

# City of Lonoke, Arkansas Water and Sewer System

## Notes to Financial Statements December 31, 2023 and 2022

### **NOTE 1: REPORTING ENTITY**

The City of Lonoke, Arkansas Water and Sewer System (the System) provides water and wastewater treatment services to the citizens of the City of Lonoke, Arkansas (the City) and to commercial and industrial customers located within the City. The City Council serves as the governing board of the System and approves rates for user charges.

These financial statements present only balances and transactions that are directly attributable to the System, and are not intended to present and do not present the financial position and changes therein of the City.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Measurement Focus and Basis of Accounting**

Although the System is not included in the regulatory financial statements of the City, the System is an enterprise fund of the City. An enterprise fund is used to account for business-type operations that are financed and operated in a manner similar to a private business enterprise, where the intent is that the costs, including depreciation, of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. The measurement focus of an enterprise fund is usually an economic resources measurement focus, the objectives of which are the determination of operating income, changes in financial position and cash flows. Under an economic resources measurement focus, all assets, deferred outflows of resources, deferred inflows of resources and liabilities (whether current or noncurrent, financial or nonfinancial) are reported.

The financial statements of the System are prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of governmental entities. Accordingly, the financial statements of the System are prepared 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.

#### **Basis of Presentation**

The presentation of the System's financial statements follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended, as applicable to enterprise funds. In accordance with the requirements of this standard, the System's net position is categorized into net investment in property, plant and equipment, restricted and unrestricted, as applicable.

In addition, operating revenues and expenses derived from or related directly to distribution of water and treatment of wastewater are distinguished from nonoperating revenues and expenses for purposes of presentation on the System's statements of revenues, expenses and changes in net

# City of Lonoke, Arkansas

## Water and Sewer System

Notes to Financial Statements  
December 31, 2023 and 2022

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Basis of Presentation (Continued)**

position. Operating revenues consist primarily of user charges and operating expenses include primarily the costs of maintaining and operating the water and wastewater treatment system. Nonoperating revenues and expenditures consist of those revenues and expenses that are related to financing and investing type activities.

When an expenditure is incurred for purposes for which there are both restricted and unrestricted net position available, it is the System's policy to first apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

#### **Accounts and Other Receivables**

Revenues for water and wastewater treatment services are recognized in the period such services are provided. Accounts receivable includes amounts for services provided but unbilled at year end. Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was approximately \$100 and \$1,500 as of December 31, 2023 and 2022, respectively.

#### **Property, Plant and Equipment**

Property, plant and equipment is reported at historical cost. Contributed assets are recorded at their estimated fair value at the time of contribution. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to forty years.

Costs related to major additions and betterments of property and equipment 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.

#### **Long-Term Debt**

Long-term debt is reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Debt issuance costs, including underwriter fees, are reported as expenses in the period in which the debt is issued.

#### **Tax Status**

The City, and thus the System, is exempt from income taxes under Section 115 of the Internal Revenue Code.

#### **Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

# City of Lonoke, Arkansas Water and Sewer System

## Notes to Financial Statements December 31, 2023 and 2022

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Transfers**

All reallocations of resources between the System and other funds of the City are considered permanent in nature for financial statement reporting purposes. Thus, all interfund transfers affecting the System have been classified as operating transfers as reflected in the statements of revenues, expenditures, and changes in net position.

**NOTE 3: CASH**

State of Arkansas (State) statutes require the City, and thus the System, to maintain cash balances on deposit with financial institutions located within the State. There is risk that, in the event of a bank failure, these deposits may not be returned to the System. To mitigate this risk, it is generally the System's policy to obtain collateral for all deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) insurance and that such collateral be held in the City's name by an agent of the City. At December 31, 2023 and 2022, unrestricted and restricted deposit balances that were not FDIC insured were fully collateralized by investments held by an agent of the City, in the City's name.

The long-term debt agreements require the establishment and maintenance of certain reserve accounts (see Note 5). A portion of the initial bond proceeds were set aside into a depreciation fund restricted for future plant and equipment purchases and periodic maintenance upgrades. Debt covenants require monthly deposits equal to one-sixth of the next interest payment and one-twelfth of the next scheduled principal payment into the revenue bond fund to provide funds for the payment of principal and interest on the bonds as they become due and payable. Restricted cash is as follows at December 31:

	<b>2023</b>	<b>2022</b>
Depreciation fund	\$ 345,593	\$ 292,810
Revenue bond fund	258,356	245,772
Restricted cash	\$ 603,949	\$ 538,582

# City of Lonoke, Arkansas Water and Sewer System

## Notes to Financial Statements December 31, 2023 and 2022

### NOTE 4: PROPERTY, PLANT AND EQUIPMENT, NET

The following is a summary of the major components of the System's capital assets and related activities resulting from modified cash basis transactions for the years ended at December 31:

		<b>2023</b>			
	<b>Useful Lives</b>	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance End of Year</b>
Non-depreciable:					
Land and improvements		\$ 43,761	\$ -	\$ -	\$ 43,761
Construction in progress -					
Water treatment plant		10,895,232	30,000	(10,925,232)	-
Wastewater treatment plant		8,915,459	16,000	(8,931,459)	-
		<u>19,854,452</u>	<u>46,000</u>	<u>(19,856,691)</u>	<u>43,761</u>
Depreciable:					
Water treatment plant	3 - 40	5,231,538	10,947,874	-	16,179,412
Wastewater treatment plant	5 - 40	3,657,547	8,934,746	-	12,592,293
Equipment	5 - 20	743,856	66,753	-	810,609
Less accumulated depreciation		<u>(7,056,461)</u>	<u>(492,430)</u>	<u>-</u>	<u>(7,548,891)</u>
		<u>2,576,480</u>	<u>19,456,943</u>	<u>-</u>	<u>22,033,423</u>
Property, plant and equipment, net		<u>\$ 22,430,932</u>	<u>\$ 19,502,943</u>	<u>\$ (19,856,691)</u>	<u>\$ 22,077,184</u>
		<b>2022</b>			
	<b>Useful Lives</b>	<b>Balance Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance End of Year</b>
Non-depreciable:					
Land and improvements		\$ 43,761	\$ -	\$ -	\$ 43,761
Construction in progress -					
Water treatment plant		9,532,288	1,362,944	-	10,895,232
Wastewater treatment plant		7,931,657	983,802	-	8,915,459
		<u>17,507,706</u>	<u>2,346,746</u>	<u>-</u>	<u>19,854,452</u>
Depreciable:					
Water treatment plant	3 - 40	5,146,998	84,540	-	5,231,538
Wastewater treatment plant	5 - 40	3,471,110	186,437	-	3,657,547
Equipment	5 - 20	743,856	-	-	743,856
Less accumulated depreciation		<u>(6,677,738)</u>	<u>(378,723)</u>	<u>-</u>	<u>(7,056,461)</u>
		<u>2,684,226</u>	<u>(107,746)</u>	<u>-</u>	<u>2,576,480</u>
Property, plant and equipment, net		<u>\$ 20,191,932</u>	<u>\$ 2,239,000</u>	<u>\$ -</u>	<u>\$ 22,430,932</u>

# City of Lonoke, Arkansas Water and Sewer System

## Notes to Financial Statements December 31, 2023 and 2022

**NOTE 5: LONG-TERM DEBT, NET**

Long-term debt at December 31, 2023 and 2022, consists of the following:

**Refunding and Improvement Revenue Bonds, Series 2003** – These bonds were issued in 2003 for the purpose of refunding then outstanding long-term debt and for financing improvements, betterments and extensions to the water and wastewater treatment system.

**General Obligation Bond Program, Series 2000A** – This bond was issued in 2000 for the purpose of financing the construction of improvements to the water and wastewater treatment system.

Balances and repayment terms of the System’s long-term debt are as follows for the years ended December 31:

	2023	2022
\$1,160,000 Refunding and Improvement Revenue Bonds, Series 2003; payable in annual installments; interest payable semiannually at 4.65%; maturing on November 1, 2025; secured by a pledge of the revenues derived from operations of the System.	\$ 105,000	\$ 165,000
\$375,950 General Obligation Bond Program, Series 2000A; payable in semiannual installments including interest at 4.60%; maturing on June 1, 2026; secured by property and equipment.	<u>56,826</u>	<u>80,278</u>
	<u>161,826</u>	<u>245,278</u>
Less current portion	<u>(89,543)</u>	<u>(83,452)</u>
Long-term debt, net of current portion	<u><u>\$ 72,283</u></u>	<u><u>\$ 161,826</u></u>

Long-term debt activity is summarized as follows for the years ended December 31:

	2023	2022
Beginning principal balance	\$ 245,278	\$ 327,687
Retirements	<u>(83,452)</u>	<u>(82,409)</u>
Ending principal balance	<u><u>\$ 161,826</u></u>	<u><u>\$ 245,278</u></u>

# City of Lonoke, Arkansas Water and Sewer System

## Notes to Financial Statements December 31, 2023 and 2022

**NOTE 5: LONG TERM DEBT, NET (Continued)**

Scheduled principal and interest payments of long-term debt are as follows at December 31, 2023:

	Principal	Interest	Total
2024	\$ 89,543	\$ 7,217	\$ 96,760
2025	65,684	3,054	68,738
2026	6,599	152	6,751
	\$ 161,826	\$ 10,423	\$ 172,249

In addition to requiring the establishment and maintenance of certain restricted account balances (see Note 3), bond covenants also require that the System maintain rates sufficient to ensure at least 115% debt service coverage, as defined in related bond documents.

**NOTE 6: DEFERRED COMPENSATION PLAN**

The City provides a Section 457 deferred compensation plan to all eligible City employees.

The System matches the contribution made by each participating employee up to 5% of the employee's gross annual wages. For the years ended December 31, 2023 and 2022, the System contributed to the plan approximately \$14,000 and \$10,400.

**NOTE 7: TRANSACTIONS WITH OTHER CITY FUNDS**

Certain employees of the City may perform administrative duties for the System. Management of the City has estimated that the economic benefit of these services is immaterial and has not allocated any expenses to the System for these services. In addition, the System provides water and wastewater treatment services to other City funds, and these funds generally do not reimburse the System for the cost of services provided.

At times during the year, transfers and/or advances may be made to and from other City funds as needed to meet cash flow requirements of the System or the City. Transfers to or from other City funds for operations and capital improvements are reflected as net transfers to or from the City in the statements of revenues, expenditures and changes in net position.



# City of Lonoke, Arkansas Water and Sewer System

Notes to Financial Statements  
December 31, 2023 and 2022

## ***NOTE 7: TRANSACTIONS WITH OTHER CITY FUNDS (Continued)***

In April 2018, the City of Lonoke issued a sales and use tax bond with the proceeds restricted for the purpose of the water and sewer system improvements, betterments and extensions in the amount of \$20,270,000. During the years ended December 31, 2023 and 2022, \$46,000 and \$2,346,746 of the construction was completed and is included in property, plant and equipment, net on the statements of net position and operating transfers from the City on the statements of revenues, expenses and changes in net position.

## ***NOTE 8: RISK MANAGEMENT***

The System 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 City has purchased commercial insurance to address these risks and premiums directly attributable to the System are charged to the System. There have been no significant reductions in the System's coverage during the years ended December 31, 2023 and 2022. In addition, there have been no settlements in excess of the System's coverage in any of the prior three fiscal years.

## **Supplementary Information**



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Honorable Members of the City Council  
and Mayor Wayne McGee  
City of Lonoke, 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 Lonoke, Arkansas Water and Sewer System** (the System), which comprise the statement of net position as of December 31, 2023, and the statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2024.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-1 that we consider to be a material weakness.

The Honorable Members of the City Council  
and Mayor Wayne McGee  
City of Lonoke, Arkansas

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System’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 System’s Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the System’s response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The System’s response was not subjected to the 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 System’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 System’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  
June 28, 2024

# City of Lonoke, Arkansas Water and Sewer System

## Schedule of Findings and Responses Year Ended December 31, 2023

### Material Weakness in Internal Control over Financial Reporting

<i>Finding</i>	<b>2023-1</b>
<i>Criteria</i>	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.
<i>Condition</i>	During the year ended December 31, 2023, there were inherent limitations in the System's controls primarily due to the limited number of personnel.
<i>Effect</i>	The limitations could allow the misappropriations of System funds.
<i>Cause</i>	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.
<i>Recommendation</i>	We recommend that management take steps to develop and implement new procedures to improve segregation of duties.
<i>Response</i>	Client diligently attempts to segregate duties, but it is beyond current staffing capabilities.