

LAKE CITY WATER AND SEWER
(A COMPONENT UNIT OF THE CITY OF LAKE CITY, AR)

FINANCIAL STATEMENTS (AUDITED)
MAY 31, 2023

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, AR 72396

LAKE CITY WATER AND SEWER

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**MEYER AND WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396**

INDEPENDENT AUDITOR'S REPORT

Mayor and City Council
Lake City Water and Sewer
Lake City, AR 72437

Opinions

We have audited the accompanying financial statements of the business-type activities of the Lake City Water and Sewer Department as of and for the year ended May 31, 2023, and the related notes to the financial statements, which collectively comprise the Lake City Water and Sewer Department'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 of the business-type activities of the Lake City Water and Sewer Department, as of May 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Lake City Water and Sewer Department 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.

Emphasis of Matter

As discussed in Note A, the accompanying financial statements of the Lake City Water and Sewer Department are intended to present the financial position, the changes in financial position, and the cash flows of the City that is attributable to the transactions of the Lake City Water and Sewer Department. They do not purport to, and do not, present fairly the financial position of the city of Lake City, Arkansas, as of May 31, 2023, the changes in financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 department'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 Lake City Water and Sewer 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 Lake City Water and Sewer 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 Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 18 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2023, on our consideration of the Lake City Water and Sewer Department'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 Lake City Water and Sewer 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 Lake City Water and Sewer Department's internal control over financial reporting and compliance.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396
September 11, 2023

LAKE CITY WATER AND SEWER DEPARTMENT MANAGEMENT'S DISCUSSION AND ANALYSIS MAY 31, 2023

Within this section of the Lake City Water and Sewer Department's financial report, the Department's management provides narrative discussion and analysis of the financial activities of the Department for the year ended May 31, 2023. The Utility's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Using this annual report

The annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide information about the Department as a whole and present a longer term view of the Department's finances. The Statement of Cash Flows provides a summary of the changes in cash and cash equivalents for the year ended May 31, 2023. Information is included in the notes to financial statements to disclose accounting policies and additional financial detail amounts shown in the financial statements. A report on internal control is also included.

Reporting on Lake City Water and Sewer Department as a whole

Our analysis of the Department as a whole follows in the next section. The Department operates as a business-type activity providing water and sewer services to its customers. Its revenues must be sufficient to cover the cost of operations, payments of indebtedness, and cost of improvements to the system. One of the most important questions asked about the Department's finances is "Is the Department as a whole better off as a result of this period's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Department as a whole, and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Department's net position and the changes which have occurred in the period. You can think of the Department's net position (the difference between its assets and liabilities) as one way to measure the Department's financial health.

Over time, increases or decreases in the net position are one indicator of whether the financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the conditions of the water and sewer system, to assess the overall health of the Department.

**LAKE CITY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
MAY 31, 2023**

Financial Highlights:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Beginning Net Position	\$ 1,302,495	\$ 1,331,666	\$1,339,865
Increase (decrease) in Net Position	<u>(11,133)</u>	<u>(29,171)</u>	<u>(8,199)</u>
Ending Net Position	<u>\$ 1,291,362</u>	<u>\$ 1,302,495</u>	<u>\$ 1,331,666</u>

Assets, liabilities, and net position for years ended May 31, 2023, 2022, and 2021 are summarized as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current and Other Assets	\$ 368,355	\$ 319,663	\$ 298,289
Restricted Assets	197,558	152,177	127,845
Capital Assets	<u>1,858,644</u>	<u>1,968,177</u>	<u>2,058,368</u>
Total Assets	<u>\$ 2,424,557</u>	<u>\$ 2,440,017</u>	<u>\$ 2,484,502</u>
Current Liabilities	\$ 84,429	\$ 64,710	\$ 56,364
Long Term Liabilities	<u>1,048,766</u>	<u>1,072,812</u>	<u>1,096,472</u>
Total Liabilities	<u>1,133,195</u>	<u>1,137,522</u>	<u>1,152,836</u>
Net Position			
Unrestricted	340,243	299,339	285,935
Short Lived Assets	37,654	32,168	26,800
Restricted for Debt Service	28,351	23,857	19,451
Restricted for System Improvements	99,287	75,595	60,978
Net Investment in Capital Assets	<u>785,827</u>	<u>871,536</u>	<u>938,502</u>
Total Net Position	<u>1,291,362</u>	<u>1,302,495</u>	<u>1,331,666</u>
Total Liabilities and Net Position	<u>\$ 2,424,557</u>	<u>\$ 2,440,017</u>	<u>\$ 2,484,502</u>

**LAKE CITY WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
MAY 31, 2023**

The following schedule presents a summary of revenues and expenses for the years ended May 31, 2023, 2022, and 2021:

	2023	2022	2021
Operating Revenues	\$ 497,869	\$ 456,985	\$ 431,707
Operating Expenses	490,565	465,718	419,475
Operating Income	7,304	(8,733)	12,232
other Income (Expense)	(18,437)	(20,438)	(20,431)
	<u>\$ (11,133)</u>	<u>\$ (29,171)</u>	<u>\$ (8,199)</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At May 31, 2023, the Department had \$ 1,858,644 invested in capital assets. This represents a net decrease of \$ 109,534 which is the result of depreciation expense recognized of \$ 109,534.

Debt

As of May 31, 2023, the Department had \$ 1,072,817 in outstanding notes payable. This represents a decrease of \$ 23,655 in scheduled debt payments.

ECONOMIC FACTORS, BUDGET AND RATES

The Utility has no plans for any major changes for the upcoming year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, suppliers, and creditors with a general overview of the Department's finances and to show the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cameron Tate, Mayor, Lake City, Arkansas.

LAKE CITY WATER AND SEWER DEPARTMENT
STATEMENT OF NET POSITION
MAY 31, 2023

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 294,783
Accounts receivable	<u>73,572</u>
Total Current Assets	<u>368,355</u>

RESTRICTED ASSETS

Cash in bank	<u>197,558</u>
Total Restricted Assets	<u>197,558</u>

CAPITAL ASSETS

Land	24,178
Water and Sewer System	3,589,673
Machinery	96,245
Tools and Equipment	551,091
Office Equipment	32,920
Less Accumulated Depreciation	<u>(2,435,463)</u>
CAPITAL ASSETS, NET	<u>1,858,644</u>

TOTAL ASSETS	<u><u>\$ 2,424,557</u></u>
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The accompanying notes are an integral part of the financial statements.

LAKE CITY WATER AND SEWER DEPARTMENT
STATEMENT OF NET POSITION
MAY 31, 2023

LIABILITIES

Current Liabilities

Accounts payable	\$ 18,792
Sales tax payable	2,443
Due to city of Lake City	15,335
Current Portion of Notes Payable	24,051
Accrued Interest Payable	165

Total Current Liabilities	60,786
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Liabilities Payable from Restricted Assets

Customer deposits	23,643
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Total Payable from Restricted Assets	23,643
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LONG TERM DEBT, NET OF CURRENT PORTION	1,048,766
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NET POSITION

Invested in capital assets, net of related debt	785,827
Short-Lived asset reserve	37,654
Restricted for System Improvements	99,287
Restricted for debt service	28,351
Unrestricted	340,243

Total Net Position	1,291,362
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TOTAL LIABILITIES AND NET POSITION	\$ 2,424,557
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The accompanying notes are an integral part of the financial statements.

LAKE CITY WATER AND SEWER DEPARTMENT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MAY 31, 2023

OPERATING REVENUES	
Water sales and service fees	\$ 154,827
Sewer sales and service fees	185,069
Connection Fees	8,785
City Sales Tax Revenue	108,687
Other Revenue	40,501
Total Operating Revenues	<u>497,869</u>
OPERATING EXPENSES:	
Salaries	146,140
Chemicals	9,299
Communications	300
Depreciation	109,534
Fuel	9,130
Insurance	13,662
Miscellaneous	8,444
Office supplies	17,423
Permits and fees	10,260
Professional fees	7,400
Repairs	5,693
Supplies	106,375
Travel	350
Uniform	1,088
Utilities	45,467
Total Operating Expenses	<u>490,565</u>
OPERATING INCOME (LOSS)	<u>7,304</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	1,920
Interest expense	(20,357)
Nonoperating revenues (expenses)	<u>(18,437)</u>
INCREASE (DECREASE) IN NET POSITION	(11,133)
Net Position at beginning of year	1,302,495
Net Position at end of year	<u>\$ 1,291,362</u>

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

LAKE CITY WATER AND SEWER DEPARTMENT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED
MAY 31, 2023

Cash Flows From Operating Activities:	
Receipts from customers	\$ 472,318
Payments to suppliers	(230,894)
Payments to employees	(146,140)
Net cash provided by operating activities	<u>95,284</u>
Cash flows from non capital financing activities	
Tranfers from other funds	<u>15,335</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	(23,655)
(Increase) decrease in restricted assets	(45,382)
Net cash provided (used) by capital and related activities	<u>(69,037)</u>
Cash flows from investing activities	
Interest income	1,920
Interest paid on capital debt	(20,361)
Net cash provided (used) by investing activities	<u>(18,441)</u>
Increase (decrease) in cash and cash equivalents	
23,141	
Cash and cash equivalents, beginning of year	
271,642	
Cash and cash equivalents, end of year	
<u>\$ 294,783</u>	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 7,304
Depreciation	109,534
(Increase) Decrease in:	
Accounts receivable	(25,551)
Increase (Decrease) in :	
Accounts Payable	1,554
Sales Tax Payable	2,443
	<u>\$ 95,284</u>

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

LAKE CITY WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Lake City Water and Sewer (the Department) is a component unit of the City of Lake City, AR. The financial statements present only the Lake City Water and Sewer Department, and do not include any other funds of the City of Lake City, AR, and are not intended to be government wide financial statements for the City of Lake City, AR.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. The accompanying financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

ACCOUNTS RECEIVABLE

Accounts Receivable are collateralized by Meter Deposits. Accounts Receivable are presented at estimated net realizable value. Revenues are reported net of all discounts and allowances, including bad debts.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Expenditures for major renewals and betterments are capitalized while minor replacements, maintenance, and repairs, which do not improve or extend the life of such assets, are charged to operations as incurred. Depreciation is provided by the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 5 – 10 years for office furniture and equipment to 40 years for water system .

CASH AND CASH EQUIVALENTS

The Lake City Water and Sewer Department considers all cash, and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. Deposits restricted pursuant to loan agreements or for other purposes are not considered cash equivalents.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LAKE CITY WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – (cont'd)

CREDIT RISK

Financial instruments which potentially subject the Department to concentrations of credit risk consist principally of temporary cash investments. The Department places its temporary cash investments with financial institutions, and its policy is to limit the amount of credit exposure to any one financial institution. The Department's policy is to limit such investments to amounts covered by FDIC coverage, and securities pledged to collateralize deposits.

ADVERTISING

Advertising costs are expensed when incurred.

SALES TAX

Lake City Water and Sewer Department is subject to state and local sales taxes on water and gas sales. Revenues are presented net of sales taxes.

NET POSITION

Net Position is divided into three components:

- Investments in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted – amounts that are restricted by the Department's creditors, (for example, debt covenants), by laws and regulations of other governments, or by other contributors.
- Unrestricted – all other net position is reported in this category.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses of the Department consist of charges for services, and the costs of providing those services, excluding interest costs.

RESTRICTED RESOURCES

When an expense is incurred that could be paid by using either restricted or unrestricted resources, the Department's policy is to first apply the expenditure toward restricted resources.

LAKE CITY WATER AND SEWER DEPARTMENT
 NOTES TO FINANCIAL STATEMENTS
 MAY 31, 2023

NOTE B – RESTRICTED ASSETS:

City ordinances mandate certain cash funds be set aside for debt retirement, and emergency (depreciation) reserves. Restricted accounts are also established to cover the Department’s liability for customer deposits. At May 31, 2023 restricted cash was as follows:

Customer Meter Deposits	\$	32,216
Sales Tax/Improvement Fund		99,287
Construction Fund		50
2017 Bond Debt Service Reserve		28,351
2017 Bond Short-Lived Asset Reserve		37,654
		\$ 197,558

The customer’s deposit reserve is established to cover the Lake City Water and Sewer Department’s liability for customer deposits of \$ 23,643.

A debt service reserve is required to be maintained by the terms of the USDA Rural Development Bond. As of May 31, 2023 the required reserve amount is \$ 28,259. The balance in the reserve account at May 31, 2023 is was \$28,351.

NOTE C – CONTINGENCIES

The Lake City Water and Sewer Department is subject to governmental regulations regarding water quality and waste disposal. Fines may result from noncompliance.

NOTE D – CONCENTRATION OF CREDIT RISKS:

The entity’s policy is for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation Insurance. The entity’s deposits are categorized to give an indication of the level of risk assumed by the entity at May 31, 2023. The categories of risk are described as follows:

Category 1 - Insured or collateralized by the entity or by the entity of its agent in the entity’s name.

Category 2 – Collateralized with securities held by the pledging financial institutions trust department or by its agent in the entity’s name.

Category 3 - Uncollateralized

LAKE CITY WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023

NOTE D – CONCENTRATION OF CREDIT RISKS: (Cont'd)

At May 31, 2023, Deposits are categorized as follows:

	Carrying amount	Category		
		1	2	3
Deposits with Financial Institutions	492,341	492,341		50
	<u>\$ 492,341</u>	<u>\$ 492,341</u>	<u>\$ -</u>	<u>\$ 50</u>

Sales – All of the Lake City Water and Sewer Departments revenues are earned from water and sewer services provided to local area residents.

NOTE E - PROPERTY AND EQUIPMENT

A Summary of activity for property plant and equipment accounts is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets not subject to depreciation:				
Land	\$ 24,178			\$ 24,178
Assets subject to depreciation				
Water and Sewer System	3,589,673			3,589,673
Machinery	96,245			96,245
Tools and Equipment	551,091			551,091
Office Equipment	32,920			32,920
	<u>4,269,929</u>	<u>-</u>	<u>-</u>	<u>4,269,929</u>
Total	4,294,107	-	-	4,294,107
Less Accumulated Depreciation	(2,325,929)	(109,534)		(2,435,463)
Net Property and Equipment	<u>\$ 1,968,178</u>	<u>\$ (109,534)</u>	<u>\$ -</u>	<u>\$ 1,858,644</u>

LAKE CITY WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2023

NOTE F: LONG TERM DEBT

Long-Term debt includes special obligation bonds payable from revenues generated by operation of the water and sewer system. These bonds are to be retired through the year 2056, with an interest rate of 1.875%. The following is a summary of debt service requirements as of May 31, 2023:

For years ending May 31,	Principal	Interest	Total
2024	24,051	19,965	44,016
2025	24,560	19,456	44,016
2026	25,024	18,992	44,016
2027	25,498	18,518	44,016
2028	25,931	18,085	44,016
For five years ending			
2033	137,409	82,671	220,080
2038	150,909	69,171	220,080
2043	165,735	54,345	220,080
2048	182,001	38,079	220,080
2053	199,908	20,172	220,080
2056	111,791	2,845	114,636
	<u>\$ 1,072,817</u>	<u>\$ 362,299</u>	<u>\$ 1,435,116</u>

A summary of notes payable activity is as follows:

Balance 5/31/2022	Additions	Reductions	Balance 5/31/2023
<u>\$ 1,096,472</u>	<u> </u>	<u>\$ 23,655</u>	<u>\$ 1,072,817</u>

NOTE G: RETIREMENT PLAN:

All Water and Sewer Department full time employees age 21 or older are eligible to participate in a deferred compensation plan after one year's service. The plan is funded entirely through employee contributions.

NOTE H: SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of this report. No items were noted which would require disclosure.

MEYER & WARD, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 1045
WYNNE, ARKANSAS 72396

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*

Mayor and City Council
Lake City Water and Sewer
Lake City, AR 72432

We have audited, 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, the financial statements of the business-type activities of the Lake City Water and Sewer Department as of and for the year ended May 31, 2023, and the related notes to the financial statements, which collectively comprise the Lake City Water and Sewer Department's basic financial statements and have issued our report thereon dated September 11, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lake City Water and Sewer Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake City Water and Sewer Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lake City Water and Sewer Department'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 Department'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 over financial reporting 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake City Water and Sewer Department's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 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.

Meyer & Ward

Meyer & Ward, P.A.
Certified Public Accountants
Wynne, Arkansas 72396

September 11, 2023

Lake City Water and Sewer Department
 Budgetary Comparison Schedule
 For the year ended May 31, 2023

	Actual	Budgeted	Variance Over (Under)
OPERATING REVENUES			
Water sales and service fees	\$ 154,827	\$ 162,500	\$ (7,673)
Sewer sales and service fees	185,069	150,000	35,069
Connection Fees	8,785	7,000	1,785
City Sales Tax Revenue	108,687		108,687
Other Revenue	40,501	15,000	25,501
	<u>497,869</u>	<u>334,500</u>	<u>163,369</u>
OPERATING EXPENSES:			
Salaries	146,140	128,500	(17,640)
Chemicals	9,299		(9,299)
Communications	300	1,800	1,500
Depreciation	109,534		(109,534)
Non capitalized equipment	-	8,000	8,000
Fuel	9,130	1,000	(8,130)
Insurance	13,662	30,200	16,538
Miscellaneous	8,444	4,500	(3,944)
Office supplies	17,423	13,500	(3,923)
Permits and fees	10,260		(10,260)
Professional fees	7,400		(7,400)
Repairs	5,693		(5,693)
Sewer Expnese		30,000	30,000
Supplies	106,375	2,500	(103,875)
Travel	350		(350)
Uniform	1,088	100	(988)
Utilities	45,467	40,000	(5,467)
Water Expense		35,000	35,000
Total Operating Expenses	<u>490,565</u>	<u>295,100</u>	<u>(195,465)</u>
OPERATING INCOME (LOSS)	<u>7,304</u>	<u>39,400</u>	<u>(32,096)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	1,920	550	1,370
Interest expense	<u>(20,357)</u>		<u>(20,357)</u>
Nonoperating revenues (expenses)	<u>(18,437)</u>	550	<u>(18,987)</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ (11,133)</u>	<u>\$ 39,950</u>	<u>\$ (51,083)</u>