

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
Lincoln, Arkansas
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022
and
INDEPENDENT AUDITOR'S REPORT

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
Lincoln, Arkansas
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2023 and 2022

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**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

INDEPENDENT AUDITOR'S REPORT

Opinions

We have audited the accompanying financial statements of the City of Lincoln Water and Sewer Department, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, as listed on 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 City of Lincoln Water and Sewer Department as of December 31, 2023 and 2022, and the respective 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.

Basis for Opinion

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 City of Lincoln 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 opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Water Department and do not purport to, and do not, present fairly the financial position of the City of Lincoln, Arkansas, as of December 31, 2023 and 2022, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibility 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; this includes 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.

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**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

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 substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures including 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 City of Lincoln 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Lincoln 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.

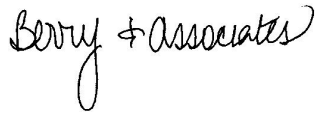
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln Water and Sewer Department's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Members of the City Council
City of Lincoln Water and Sewer Department
Lincoln, Arkansas**

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2024 on our consideration of the City of Lincoln 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 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 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 City of Lincoln Water and Sewer Department's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Berry & Associates".

Berry & Associates, P.A.
Little Rock, Arkansas
May 3, 2024

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
December 31, 2023 and 2022

ASSETS

	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,083,601	\$ 1,236,684
Accounts receivable	392,044	337,189
Inventory	239,250	246,491
Total current assets	<u>1,714,895</u>	<u>1,820,364</u>
NON-CURRENT ASSETS		
Restricted cash and cash equivalents	1,026,034	911,949
Capital assets, net of accumulated depreciation	<u>12,750,658</u>	<u>13,155,083</u>
TOTAL ASSETS	<u><u>\$ 15,491,587</u></u>	<u><u>\$ 15,887,396</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 469,000	\$ 456,800
Accounts payable	95,716	110,272
Sales tax payable	14,461	9,439
Accrued compensation	23,113	28,868
Accrued interest payable	41,886	61,795
Other current liabilities	27,449	22,593
Total current liabilities	<u>671,625</u>	<u>689,767</u>
LONG-TERM DEBT, net of current maturities	9,993,749	10,462,770
LIABILITIES PAYABLE FROM RESTRICTED ASSETS		
Customer water meter deposits	<u>186,720</u>	<u>179,810</u>
TOTAL LIABILITIES	<u>10,852,094</u>	<u>11,332,347</u>
NET POSITION		
Net investment in capital assets	2,287,909	2,363,437
Temporarily restricted	686,230	593,043
Unrestricted	<u>1,665,354</u>	<u>1,598,569</u>
TOTAL NET POSITION	<u>4,639,493</u>	<u>4,555,049</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 15,491,587</u></u>	<u><u>\$ 15,887,396</u></u>

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

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
For the Years Ended December 31, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Water revenue	\$ 3,144,848	\$ 2,886,216
Sewer revenue	377,344	372,419
Connections	55,071	40,720
Penalties	92,684	82,544
Other revenue	64,722	60,052
Total operating revenues	<u>3,734,669</u>	<u>3,441,951</u>
OPERATING EXPENSES		
Salaries	601,739	550,367
Payroll expenses	45,268	39,976
Water purchased	1,038,635	958,681
Contract labor	66,914	67,404
Utilities	88,159	94,286
Repairs and maintenance	270,416	47,587
Supplies and tools	282,056	159,665
Office expense	32,897	25,188
Chemicals	24,309	19,188
Professional fees	50,481	39,238
Insurance	90,260	84,501
Uniforms	15,920	12,260
Depreciation	569,079	563,971
Retirement	91,710	80,879
Fees and dues	45,746	82,244
Vehicle expense	48,484	46,463
Bank charges	4,900	10,811
Miscellaneous	11,396	1,655
Total operating expenses	<u>3,378,369</u>	<u>2,884,364</u>
OPERATING INCOME	<u>356,300</u>	<u>557,587</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	8,628	3,335
Interest expense	(275,158)	(311,998)
Bad debt	(19,942)	(39,824)
Debt issuance costs	-	(37,122)
Grant income	74,616	-
Net non-operating expenses	<u>(211,856)</u>	<u>(385,609)</u>
INCOME BEFORE TRANSFERS	144,444	171,978
Transfers out	(60,000)	-
CHANGE IN NET POSITION	<u>84,444</u>	<u>171,978</u>
NET POSITION - BEGINNING OF YEAR	<u>4,555,049</u>	<u>4,383,071</u>
NET POSITION - ENDING OF YEAR	<u><u>\$ 4,639,493</u></u>	<u><u>\$ 4,555,049</u></u>

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

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Cash received from customers	\$ 3,789,524	\$ 3,451,371
Cash payments for supplies	(2,333,485)	(1,976,402)
Cash payments to employees	(601,739)	(550,367)
Net cash provided by operating activities	<u>854,300</u>	<u>924,602</u>
Cash flows from investing activities:		
Interest received	8,628	3,335
Change in restricted cash and cash equivalents	(114,085)	143,127
Net cash provided (used) by investing activities	<u>(105,457)</u>	<u>146,462</u>
Cash flows from non-capital financing activities:		
Operating transfers out	(60,000)	-
Net cash used by non-capital financing activities	<u>(60,000)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(164,654)	(51,368)
Bond issuance costs on long-term debt proceeds	-	(37,122)
Other nonoperating income received	74,616	-
Principal payments on long-term debt	(456,821)	(444,676)
Interest payments on long-term debt	(295,067)	(311,714)
Net cash used by financing activities	<u>(841,926)</u>	<u>(844,880)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(153,083)</u>	<u>226,184</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,236,684</u>	<u>1,010,500</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,083,601</u></u>	<u><u>\$ 1,236,684</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 356,300	\$ 557,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	569,079	563,971
Provision for bad debt	19,942	39,824
(Increase) Decrease in:		
Accounts receivable	(94,739)	(49,254)
Prepaid expenses	-	1,690
Inventory	7,241	(194,192)
Increase (Decrease) in:		
Accounts payable and retainage payable	(14,556)	19,794
Customer meter deposits	6,910	11,775
Sales tax payable	5,022	2,103
Other current liabilities	4,856	1,532
Accrued compensation and payroll taxes	(5,755)	9,596
	<u>498,000</u>	<u>406,839</u>
Net cash provided by operating activities	<u><u>\$ 854,300</u></u>	<u><u>\$ 964,426</u></u>

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

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The Department is a component unit of the City of Lincoln, Arkansas with operations directed by the City Council. The system serves property located within the corporate limits of the City of Lincoln and certain properties outside the city limits.

Basis of Presentation and Accounting

The accounts of the Department are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Department's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Department is determined by its measurement focus. The transactions of the Department are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Estimates

Management of the Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Department considers all highly liquid investments (including restricted cash and investments) with maturities of three months or less when purchased to be cash equivalents. Certificate of deposits are presented at fair value. Short-term investments generally mature or are otherwise available for withdrawal in less than one year.

Inventories

Inventories consist of expendable supplies held for consumption. Inventory is valued at the lower of cost or market, on a first-in, first-out basis. Cost is deemed to approximate market value.

Allowance for Bad Debts

Allowance for bad debts is determined using the specific write-off method. This method is not in accordance with generally accepted accounting principles, but use of this method is not considered a material misstatement of the financial statements.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are expensed in the current period. Losses occurring from advance refunding of debt are expensed in the current period.

Reclassifications

Certain amounts reported in 2022 have been reclassified to conform to the presentation at December 31, 2023.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Capital Assets

The cost of additions and major replacements of retired units of property are capitalized. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Cost includes direct labor, outside services, materials and transportation, employee fringe benefits, overhead, and interest on funds borrowed to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statements of revenues, expenses and changes in net position. The cost of current repairs, maintenance, and minor replacements is charged to expense. Construction in progress primarily relates to upgrades of existing facilities.

	<u>Years</u>
Water and Sewer System	40
Machinery and Equipment	5-7
Vehicles	5
Buildings	40
Office Equipment	5-7

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of 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.

Equity Classifications

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Temporarily Restricted- This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted."

Budgets and Budgetary Accounting

Prior to the beginning of the new fiscal year, the Council Members adopt an annual budget for the Department. The budget of the Department is adopted under a basis consistent with GAAP, except that depreciation, certain capital expenses, and nonoperation income and expense items are not considered. All annual appropriations lapse at the fiscal year-end.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Compensated Absences

Financial Accounting Standards Board statement No. 43 requires employers to accrue a liability for future vacation and other leave benefits that meet all of the following conditions:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- b. The obligation relates to rights that vest or accumulate.
- c. Payment of compensation is probable.
- d. The amount can be reasonably estimated.

Employees' vacation and holiday leave does accumulate and sick leave is not normally paid without an illness related absence. Generally, after one year of service, employees are entitled to all accrued vacation leave upon termination.

At December 31, 2023 and 2022, the Department's unused accrued vacation, other leave, and accrued salaries amounted to \$23,113 and \$28,868, as recorded as liabilities at December 31, 2023 and 2022, respectively.

Date of Management's Review

Subsequent events have been evaluated through May 3, 2024, which is the date the financial statements were available to be issued.

Leases

The Department calculates operating leases using the implicit interest rate, or their incremental borrowing rate if the lease rate is not determinable. All lease and non-lease components are combined for all leases. Lease payments for leases with a term of 12 months or less are expensed on a straight-line basis over the term of the lease with no lease asset or liability recognized.

NOTE 2- RESTRICTED ASSETS:

Restricted assets consist of cash reserves restricted by long-term debt covenants and cash deposits for meters by customers. The long-term debt covenants require minimum reserves for bond payments and a depreciation fund (see Note 3).

The following is a list of the restricted cash at December 31, 2023 and 2022:

	2023	2022
Meter deposits	\$ 211,718	\$ 198,721
Debt service reserves	686,230	593,043
Bond funds	128,086	120,185
	<u>\$ 1,026,034</u>	<u>\$ 911,949</u>

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 3 - LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</u>
Arkansas Natural Resources General Obligation Bond 00898-CGO-L, due in semi-annual installments of \$63,646, including interest at 3.29%, beginning June 2013 through December 2042. (1)	\$ 1,787,749	\$ 1,854,570
Water and Sewer Revenue Refunding Bonds Series 2019, due in annual installments of variable amounts, including interest at a variable rate through November 2043. (2)	3,945,000	4,085,000
Water and Sewer Revenue Refunding Bonds Series 2021, due in annual installments of variable amounts, including interest at a variable rate through November 2044. (3)	<u>4,730,000</u>	<u>4,980,000</u>
	10,462,749	10,919,570
Less: Current portion	<u>(469,000)</u>	<u>(456,800)</u>
Long-term portion	<u>\$ 9,993,749</u>	<u>\$ 10,462,770</u>

- (1) The loans/bonds have restrictive covenants, including the requirements to begin accumulating a depreciation reserve in monthly installments of 3% of gross revenues for the life of the bond. As of December 31, 2023, \$1,040,630 should be accumulated.
- (2) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve of \$141,200 for the life of the bond. As of December 31, 2023, \$141,200 should be accumulated.
- (3) The revenue bond has a restrictive covenant, including the requirement to maintain a debt service reserve of \$138,065 for the life of the bond. As of December 31, 2023, \$138,065 should be accumulated.

The total cumulative debt service requirements were \$1,319,895 as of December 31, 2023. At December 31, 2023 the cash restricted for debt service requirements totaled \$686,230; leaving \$633,665 underfunded.

Annual maturities of long-term debt at December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 469,000	\$ 283,688	\$ 752,688
2025	476,300	271,938	748,238
2026	488,700	264,938	753,638
2027	501,100	247,588	748,688
2028	508,700	242,301	751,001
2029-2033	2,734,300	1,015,564	3,749,864
2034-2038	2,486,200	662,493	3,148,693
2039-2043	2,643,449	252,312	2,895,761
2044	155,000	3,681	158,681
	<u>\$ 10,462,749</u>	<u>\$ 3,244,503</u>	<u>\$ 13,707,252</u>

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 3 - LONG-TERM DEBT, continued:

Long-term liability activity for the years ended December 31, 2023 and 2022 is as follows:

	Balance 12/31/22	Additions	Retirements	Balance 12/31/23	Due Within One Year
Long Term Debt					
Bonds	\$ 10,919,570	\$ -	\$ (456,821)	\$ 10,462,749	\$ 469,000

	Balance 12/31/21	Additions	Retirements	Balance 12/31/22	Due Within One Year
Long Term Debt					
Bonds	\$ 11,364,246	\$ -	\$ (444,676)	\$ 10,919,570	\$ 456,800

The Department has pledged future water customer revenues, net of specified operating expenses, to repay \$10,462,749 in bonds. Proceeds from the bonds were used for building of the Department's water system. Principal and interest on the bonds are payable through 2044, solely from the water customer net revenues. Principal and interest paid in the year ended December 31, 2023 were \$456,821 and \$295,067, respectively. Principal and interest paid in the year ended December 31, 2022 were \$444,676 and \$311,714, respectively.

NOTE 4 –PUBLIC FUNDS: DEPOSITS WITH FINANCIAL INSTITUTIONS:

As required by law, all funds are deposited in approved banks. The deposited funds are insured by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the banks in the Department's name. As of December 31, 2023, deposited funds were adequately insured and collateralized.

NOTE 5 – PENSION PLAN:

Plan Description. The City of Lincoln contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, AR 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Beginning July 1, 2022, the contribution rates shall be increased in increments of .25% per fiscal year, not to exceed 7%. The contributory rate was increased to 5.50% as of July 1, 2023. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 15.32% of annual covered payroll. The Department's contributions to APERS for the years ending December 31, 2023 and 2022 were \$91,710 and \$80,879, respectively, equal to the required contributions for the year.

CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 5 – PENSION PLAN, continued:

Requirements. GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which establishes standards for public pension plan obligations for participating employers. A cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its' proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return. These financial statements do not include the disclosure related to this accounting principal, but would be included in the government wide financial statements and not the individual fund financial statements.

NOTE 6 – CAPITAL ASSETS:

A summary of changes in capital assets for the years ended December 31, 2023 and 2022 is as follows:

	Balance 12/31/22	Additions	Disposals / Transfers	Balance 12/31/23
Building	\$ 114,214	\$ -	\$ -	\$ 114,214
Improvements	18,121	-	-	18,121
Land	34,541	-	-	34,541
Machinery and equipment	431,983	15,771	-	447,754
Office equipment	37,079	-	-	37,079
Vehicles	205,385	53,167	-	258,552
Water and sewer system	21,944,118	28,241	-	21,972,359
Construction in progress	-	67,475	-	67,475
	<u>22,785,441</u>	<u>\$ 164,654</u>	<u>\$ -</u>	<u>22,950,095</u>
Less: Accumulated Depreciation	<u>(9,630,358)</u>			<u>(10,199,437)</u>
Total Capital Assets	<u>\$ 13,155,083</u>			<u>\$ 12,750,658</u>

	Balance 12/31/21	Additions	Disposals / Transfers	Balance 12/31/22
Building	\$ 114,214	\$ -	\$ -	\$ 114,214
Improvements	18,121	-	-	18,121
Land	34,541	-	-	34,541
Machinery and equipment	426,602	5,381	-	431,983
Office equipment	37,079	-	-	37,079
Vehicles	159,398	45,987	-	205,385
Water and sewer system	21,944,118	-	-	21,944,118
	<u>22,734,073</u>	<u>\$ 51,368</u>	<u>\$ -</u>	<u>22,785,441</u>
Less: Accumulated Depreciation	<u>(9,066,387)</u>			<u>(9,630,358)</u>
Total Capital Assets	<u>\$ 13,667,686</u>			<u>\$ 13,155,083</u>

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022**

NOTE 7 – COMMITMENTS:

The Department started a construction project for sewer rehabilitation during the year ended December 31, 2023. The Department has entered into a contract with an engineering firm for the amount of \$560,054, and total costs of \$67,475 were incurred on this contract as of December 31, 2023.



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City of Lincoln Water and Sewer Department
Lincoln, Arkansas

**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***

Independent Auditor's Report

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 City of Lincoln Water and Sewer Department, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Lincoln Water and Sewer Department's financial statements and have issued our report thereon dated May 3, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 in a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Members of the City Council
Lincoln Water and Sewer Department
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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lincoln 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying list of findings as items 2023-01.

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 Finding and Responses. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Berry & Associates, P.A.
Little Rock, Arkansas
May 3, 2024

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023**

2023-01 Compliance –Loan Covenants

Criteria: The Department was not in compliance with the loan covenants established by Arkansas Natural Resources Commission.

Condition: Loan covenants with Arkansas Natural Resources Commission requires a depreciation reserve in the amount of three percent of gross monthly revenues to be accumulated for the life of the loan. This condition was also noted in 2022.

Cause: The monthly deposits made to the depreciation reserve account are not adequate to comply with the loan covenant.

Effect or Potential Effect: Without having the proper reserve accounts, the Department risks having the ability to pay for any major repair, and is not in compliance with the loan covenant.

Recommendation: We recommend that the Department start making the required monthly transfers to the depreciation accounts.

View of Responsible Officials: The Department concurs with the recommendation.

SUPPLEMENTARY INFORMATION

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION
December 31, 2023**

MEMBERS OF THE COUNCIL:

Doug Hutchens, Mayor
Becky Carter, Clerk/Treasurer
Doug Moore, Council Member
Claire Bailey, Council Member
Jerred Birkes, Council Member
Abegail Birkes, Council Member
Billy Rusher, Council Member
David McBride, Council Member
Mary West, Council Member
Jon Wood, Council Member

WATER AND SEWER RATE SCHEDULES:

<u>WATER RATES</u>	<u>PER 1,000 GALLONS</u>
RESIDENTIAL AND COMMERCIAL:	
City Water Rate:	
Base Rate	\$ 43.22 minimum
0-5,000 gallons	\$ 10.00 per 1,000 gallons
Next 5,000 gallons	\$ 11.00 per 1,000 gallons
Next 5,000 gallons	\$ 12.00 per 1,000 gallons
Next 5,000 gallons	\$ 13.00 per 1,000 gallons
Next 5,000 gallons	\$ 14.00 per 1,000 gallons
All over 25,000 gallons	\$ 15.00 per 1,000 gallons
Country Water Rates:	
Base Rate	\$ 53.34 minimum
0-5,000 gallons	\$ 10.00 per 1,000 gallons
Next 5,000 gallons	\$ 11.00 per 1,000 gallons
Next 5,000 gallons	\$ 12.00 per 1,000 gallons
Next 5,000 gallons	\$ 13.00 per 1,000 gallons
Next 5,000 gallons	\$ 14.00 per 1,000 gallons
All over 25,000 gallons	\$ 15.00 per 1,000 gallons
SE/Rural West Water Rate	
Base Rate	\$ 66.97 minimum
0-5,000 gallons	\$ 10.00 per 1,000 gallons
Next 5,000 gallons	\$ 11.00 per 1,000 gallons
Next 5,000 gallons	\$ 12.00 per 1,000 gallons
Next 5,000 gallons	\$ 13.00 per 1,000 gallons
Next 5,000 gallons	\$ 14.00 per 1,000 gallons
All over 25,000 gallons	\$ 15.00 per 1,000 gallons

**CITY OF LINCOLN WATER AND SEWER DEPARTMENT
SUPPLEMENTARY INFORMATION, CONTINUED
December 31, 2023**

WATER AND SEWER RATE SCHEDULES, continued:

<u>SEWER RATES</u>	<u>PER 1,000 GALLONS</u>
RESIDENTIAL AND COMMERCIAL:	
0-1,000 gallons of water used	\$ 22.08
All over 1,000 gallons	\$ 4.50

As of December 31, 2023, water and sewer service was provided to 2,866 and 941 active users, respectively.

ACCOUNTING:

The accounting records were found to be adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

Reserve accounts are not being properly maintained.

INSURANCE SCHEDULE:

<u>INSURANCE COMPANY</u>	<u>COVERAGE</u>	
Arkansas Municipal League	Building, Personal Property	\$ 10,422,317
Arkansas Municipal League	Vehicle	\$ 352,468