

LONDON MUNICIPAL WATER SYSTEM
DECEMBER 31, 2020 AND 2019

LONDON MUNICIPAL WATER SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

City Council
London Municipal Water System
London, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the London Municipal Water System, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the London Municipal Water System's, basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the London Municipal Water System as of and for the years ended December 31, 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparisons information on pages 11-12 and 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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 January 4, 2022 on our consideration of the London Municipal Water System'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 London Municipal Water System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the London Municipal Water System's internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
January 4, 2022



LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2019</u>	<u>2019</u>
Cash and Cash Equivalents (Note 2)		
Unrestricted	\$ 208,868	\$ 154,306
Restricted	149,532	142,689
Accounts Receivable - Net	63,881	68,102
Prepaid Insurance	3,522	2,234
Property and Equipment:		
Water Lines and Tanks	928,748	928,748
Wastewater System	5,321,244	5,321,244
Machinery & Equipment	334,265	334,265
Shop Building	66,601	66,601
Vehicles	34,464	56,552
	<u>6,685,322</u>	<u>6,707,410</u>
Less: Accumulated Depreciation	1,987,710	1,884,315
	<u>4,697,612</u>	<u>4,823,095</u>
	<u>5,123,415</u>	<u>5,190,426</u>

LIABILITIES

Accounts Payable - Regular	8,047	9,974
Accounts Payable - General Fund	119,944	119,944
Accrued Expenses	7,588	5,148
Customer Deposits	31,840	25,800
Long-term Liabilities: (Note 3)		
Current Maturities	29,217	27,860
Due in More Than 1 Year	1,185,890	1,215,109
	<u>1,382,526</u>	<u>1,403,835</u>

NET POSITION

Invested in Capital Assets	3,482,505	3,580,126
Restricted Net Assets	117,692	116,889
Unrestricted Net Assets	140,692	89,576
	<u>3,740,889</u>	<u>3,786,591</u>
	<u>\$ 5,123,415</u>	<u>\$ 5,190,426</u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 494,125	\$ 420,685
 <u>OPERATING EXPENSES</u>		
Water Purchased	81,208	50,611
Salaries	109,700	114,720
Utilities	30,427	34,638
Insurance	5,860	5,401
Employee Health Insurance	10,390	6,816
Supplies and Maintenance	87,835	34,603
Payroll Taxes	7,814	8,839
Depreciation	125,483	128,276
Dues and Subscriptions	3,796	6,327
Auto Expense	9,588	6,229
Contract Services	0	2,751
Office Supplies and Postage	7,457	8,075
Bank Fees	145	40
Legal and Accounting	5,800	5,000
	<u>485,503</u>	<u>412,326</u>
 Operating Income	<u>8,622</u>	<u>8,359</u>
 <u>NONOPERATING REVENUES AND EXPENSES</u>		
Interest Income	322	275
Gain on Sale of Auto	2,500	0
Interest Expense	(57,146)	(58,443)
	<u>(54,324)</u>	<u>(58,168)</u>
 INCREASE (DECREASE) IN NET POSITION	<u>(45,702)</u>	<u>(49,809)</u>
 NET POSITION, BEGINNING OF YEAR	<u>3,786,591</u>	<u>3,836,400</u>
 NET POSITION, END OF YEAR	<u><u>\$ 3,740,889</u></u>	<u><u>\$ 3,786,591</u></u>

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Position	\$ (45,702)	\$ (49,809)
Adjustments to Reconcile Operating Loss to Cash Provided by Operating Activities:		
Depreciation	125,483	128,276
Gain on Sale of Auto	(2,500)	
Interest Expense Included in Nonoperating Expenses	57,146	58,443
(Increase) Decrease in Operating Assets:		
Accounts Receivable	4,221	(7,530)
Prepaid Insurance	(1,288)	223
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,927)	(3,288)
Accrued Expenses	2,440	(3,991)
Customer Deposits	6,040	(250)
Total Adjustments	189,615	171,883
Net Cash Provided by Operating Activities	143,913	122,074
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Auto	2,500	0
Net Cash Used by Investing Activities	2,500	0
 CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Paid	(57,146)	(58,443)
Repayment of Notes Payable	(27,862)	(26,569)
Net Cash Used by Financing Activities	(85,008)	(85,012)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	61,405	37,062
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	296,995	259,933
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 358,400	\$ 296,995
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During Year for Interest	\$ 57,205	\$ 58,499
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 208,868	\$ 154,306
Restricted Cash	149,532	142,689
	\$ 358,400	\$ 296,995

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The City of London, Arkansas is a municipal corporation governed by an elected Mayor-Council form of government. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board (GASB) Statement No. 14 have been considered. These financial statements represent only the Water and Sewer System funds and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Separately issued financial statements of the City, primary government other than the System, may be obtained at the City of London City Hall.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the System are grouped in the financial statements into one fund type and one generic fund as follows:

Organization

Enterprise funds-Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The System uses the accrual basis of accounting which recognizes revenues when they are earned and expenses when they are incurred.

The System applies all Government Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1998, unless these pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

The System considers cash equivalents to be short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Cash and cash equivalents" and "Restricted Assets-Cash and cash equivalents".

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Water lines & tanks	50
Shop buildings	39-50
Machinery & equipment	5
Vehicles	5

Property and Equipment

Property and equipment is stated at cost. Activity of the property and equipment consists of the following:

	<u>Balance</u> <u>12-31-2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2020</u>
Water lines & tanks	\$ 928,748		\$ 0	\$ 928,748
Wastewater system	5,321,244			5,321,244
Machinery & equipment	334,265			334,265
Shop buildings	66,601			66,601
Vehicles	56,552		22,088	34,464
	<u>\$ 6,707,410</u>		<u>\$ 0</u>	<u>\$ 6,685,322</u>

Income Tax

The London Municipal Water System is municipally owned and is exempt from Federal and State income tax.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Bad Debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based on a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Regulatory Environment

The quality of water emitted from the sewer treatment plants is regulated by the Environmental Protection Agency and the Arkansas Department of Health. The quality of water furnished to customers is subject to the requirements of the Environmental Protection Agency under the Safe Drinking Water Act and the Arkansas Department of Health.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2: CASH AND CASH EQUIVALENTS

The cash balance is composed of unrestricted and restricted funds as follows:

	<u>2020</u>	<u>2019</u>
<u>Unrestricted</u>		
Revenue and operating fund	<u>\$ 208,868</u>	<u>\$ 154,306</u>
<u>Restricted</u>		
Depreciation Fund	33,906	38,777
Meter Deposit Fund	31,840	25,800
Debt Service Reserve Fund	<u>83,786</u>	<u>78,112</u>
	<u>149,532</u>	<u>142,689</u>
	<u>\$ 358,400</u>	<u>\$ 296,995</u>

NOTE 3: LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2020</u>	<u>2019</u>
Note payable to the United States Department of Agriculture, Rural Development 92-02, interest at 4.5%, maturity March 2049, principal and interest payable monthly at \$4,843. Secured by water and waste water system and water and sewer revenues.	\$ 926,545	\$ 942,575
Note payable to the United States Department of Agriculture, Rural Development 91-01, interest at 5.125%, maturity March 2041, principal and interest payable monthly at \$2,246. Secured by water system and water revenues.	<u>288,562</u>	<u>300,394</u>
	1,215,107	1,242,969
Less current maturities	<u>29,217</u>	<u>27,860</u>
	<u>\$ 1,185,890</u>	<u>\$ 1,215,109</u>

Future maturities on long-term notes payable are as follows:

	Principal	Interest	Total
2021	29,217	55,851	85,068
2022	30,641	54,427	85,068
2023	32,134	52,934	85,068
2024	33,701	51,367	85,068
2025	35,344	49,724	85,068
Thereafter	<u>1,054,070</u>	<u>575,189</u>	<u>1,629,259</u>
	<u>\$ 1,215,107</u>	<u>\$ 839,492</u>	<u>\$ 2,054,599</u>

The reserve requirements for the above notes payable are as follows:

92-02	\$ 56,260
91-01	<u>26,952</u>
	<u>\$ 83,212</u>

The debt service reserve fund balance as of December 31, 2020 was \$83,786.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 4: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

Deposits in financial institutions are financial instruments that could potentially subject the System to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The System maintains all deposit balances in one financial institution and at times may exceed federally insured limits. The System has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on deposits. Uninsured/uncollateralized deposits on December 31, 2020 and 2019 were \$107,438 and \$47,033, respectively.

NOTE 5: CONCENTRATION OF CREDIT RISK

The System provides water services to residential, farm, commercial and industrial customers in London, Arkansas and surrounding areas. The System operates from its primary facilities in London, Arkansas. The System grants unsecured credit to customers located in the vicinity of the operating location.

NOTE 6: SCHEDULE OF RATES

2020 Monthly Water Rates:

- a. Minimum charge on first 1,000 gallons, \$18.61
- b. Charge of \$13.37 per 1,000 gallons for the next 4,000 gallons
- c. Charge of \$10.55 per 1,000 gallons for the next 5,000 gallons
- d. Charge of \$9.49 per 1,000 gallons for the usage over 10,000 gallons
- e. Additional \$5.86 per month on all water users located outside city limits.
- f. Bulk rate \$13.31 per 1,000 gallons.

2020 Monthly Wastewater Rates:

- a. Minimum charge on first 1,000 gallons, \$30.00
- b. Charge of \$2.50 per 1,000 gallons for the usage over 1,000 gallons.

NOTE 7: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: 02240
Expiration: 02-02-2021
Coverage: Vehicle liability and physical damage

Company: Shelter Insurance
Policy No.: 03-78-4475031-2
Expiration: 10-16-2021
Coverage: Building

Company: Municipal League Workers' Compensation Trust
Policy No: 264
Expiration: 12-31-2021
Coverage: Workmen Compensation

Company: EMC Insurance Companies
Policy No.: 2A71678-22
Expiration: 05-08-2021
Coverage: Pump station and water tank

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8: RETIREMENT PLAN

The System has adopted a simplified employee pension plan for its employees. Discretionary contributions to the plan are determined by the City Council. The System elected not to make a contribution for 2020 or 2019.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 4, 2022 the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2020**

London Municipal Water System (the System) management's discussion and analysis is designed to:

- Assist the reader in focusing on significant financial issues
- Provide an overview of the System's financial activity
- Identify changes in the System's financial position
- Identify individual fund issues or concerns

Overview of the Financial Statements

The financial statements of the System report information about the System by using accounting methods similar to those used by private business enterprises. These statements provide both long-term and short-term information about the System's overall financial status. Following the financial statements are the notes to the financial statements which provide explanations and additional detailed information.

The statements of net position present information on all the System's assets and liabilities with the difference between the two reported as net position. The statements provide one way to measure the financial health of the System by providing the basis for evaluating the capital structure of the System and assessing the liquidity and financial flexibility of the System.

The statements of revenues, expenses, and changes in net position present information showing how the System's net position changed during the most recent and current years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statements of cash flows report cash receipts and expenditures that result from operations, financing, and investing activities. These statements provide information regarding sources of cash and use of cash.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis of the System

The assets of the System exceeded its liabilities at the close of the most recent fiscal year by \$3,740,889 (net position). Of this amount, \$140,692 (unrestricted net assets) may be used to meet the System's ongoing obligations to customers and creditors.

The largest portion of the System's net assets, representing 93.1%, reflects its investment in capital assets, net of the related debt used to acquire the assets. The System uses these capital assets to provide services to its customers. The related debt will be repaid with resources provided by the System's customers through rates and fees.

Total assets amounted to \$5,123,415 consisting of capital assets of \$4,697,612 and other assets of \$425,803. Total assets decreased 1.3% or \$67,011 during the current fiscal year. This decrease was the net result of the current year depreciation of \$125,483, offset by a net increase in other assets of \$58,472.

Total liabilities amounted to \$1,382,526 consisting of long-term liabilities of \$1,185,890 and other liabilities of \$196,636. Total liabilities decreased 1.5% or \$21,309 during the current fiscal year. This decrease was the net result of payments on long term debt totaling \$27,860, offset by a net increase in other liabilities of \$6,551.

The System experienced an increase in total cash in the amount of \$61,405 during the current year. This increase was the result of an increase in unrestricted cash in the amount of \$54,562 and an increase in restricted cash in the amount of \$6,843. The total restricted cash amounted to \$149,532 and consisted of customer meter deposits in the amount of \$31,840, funds reserved for future annual debt payments in the amount of \$83,786, and funds reserved for future replacement and repairs of the system in the amount of \$33,906.

**LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2020**

Economic Factors

The System indicated no changes related to current economic factors.

Request for Information

This report is designed to provide a general overview of the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the London Municipal Water System, P.O. Box 130, London, Arkansas 72847.

LONDON MUNICIPAL WATER SYSTEM
BUDGETARY COMPARISON INFORMATION
YEAR ENDED DECEMBER 31, 2020

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
<u>OPERATING REVENUES</u>			
Water and Sewer Revenues	\$ 494,125	\$ 500,000	\$ (5,875)
<u>OPERATING EXPENSES</u>			
Water Purchased	81,208	65,000	16,208
Salaries	109,700	155,000	(45,300)
Utilities	30,427	34,000	(3,573)
Insurance	5,860	7,500	(1,640)
Employee Health Insurance	10,390	8,000	2,390
Supplies and Maintenance	87,835	40,000	47,835
Payroll Taxes	7,814	10,000	(2,186)
Depreciation	125,483	130,000	(4,517)
Dues and Subscriptions	3,796	5,000	(1,204)
Auto Expense	9,588	7,000	2,588
Contract Services	0	5,000	(5,000)
Office Supplies and Postage	7,457	10,000	(2,543)
Bank Fees	145	0	145
Legal and Accounting	5,800	5,000	0
	<u>485,503</u>	<u>481,500</u>	<u>3,203</u>
Operating Income	<u>8,622</u>	<u>18,500</u>	<u>(9,878)</u>
<u>NON-OPERATING REVENUES AND EXPENSES</u>			
Interest Income	322	200	122
Gain on Sale of Auto	2,500	0	2,500
Interest Expense	(57,146)	(58,000)	854
	<u>(54,324)</u>	<u>(57,800)</u>	<u>3,476</u>
DECREASE IN NET POSITION	<u>\$ (45,702)</u>	<u>\$ (39,300)</u>	<u>\$ (6,402)</u>

LONDON MUNICIPAL WATER SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2020

There were no findings or questioned costs.

JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

City Council of London, Arkansas
London Municipal Water System
London, 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 London Municipal Water System ("the System"), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated January 4, 2022.

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) to determine 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 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 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 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 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
January 4, 2022

