

LONDON MUNICIPAL WATER SYSTEM
DECEMBER 31, 2021 AND 2020

LONDON MUNICIPAL WATER SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

City Council and Management
London Municipal Water System
London, Arkansas

Opinion

We have audited the accompanying financial statements of London Municipal Water System, which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of London Municipal Water System as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows 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. 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 London Municipal Water System 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted 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, including omissions, 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, 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 London Municipal Water System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about London Municipal Water System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
October 25, 2022



LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

	<u>ASSETS</u>	
	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents (Note 2)		
Unrestricted	\$ 200,374	\$ 208,868
Restricted	162,624	149,532
Accounts Receivable - Net	63,614	63,881
Prepaid Insurance	3,024	3,522
Property and Equipment:		
Water Lines and Tanks	928,748	928,748
Wastewater System	5,321,244	5,321,244
Machinery & Equipment	409,266	334,265
Shop Building	66,601	66,601
Vehicles	34,464	34,464
	<u>6,760,323</u>	<u>6,685,322</u>
Less: Accumulated Depreciation	2,120,070	1,987,710
	<u>4,640,253</u>	<u>4,697,612</u>
	<u>5,069,889</u>	<u>5,123,415</u>
	<u>LIABILITIES</u>	
Accounts Payable - Regular	5,902	8,047
Accounts Payable - General Fund	119,944	119,944
Accrued Expenses	8,625	7,588
Customer Deposits	38,669	31,840
Long-term Liabilities: (Note 3)		
Current Maturities	30,641	29,217
Due in More Than 1 Year	1,155,246	1,185,890
	<u>1,359,027</u>	<u>1,382,526</u>
	<u>NET POSITION</u>	
Invested in Capital Assets	3,482,505	3,482,505
Restricted Net Assets	123,955	117,692
Unrestricted Net Assets	104,402	140,692
	<u>3,710,862</u>	<u>3,740,889</u>
	<u>\$ 5,069,889</u>	<u>\$ 5,123,415</u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2020	2020
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 548,515	\$ 494,125
<u>OPERATING EXPENSES</u>		
Water Purchased	71,476	81,208
Salaries	113,204	109,700
Utilities	34,774	30,427
Insurance	8,974	5,860
Employee Health Insurance	12,246	10,390
Supplies and Maintenance	112,052	87,835
Payroll Taxes	9,137	7,814
Depreciation	132,360	125,483
Dues and Subscriptions	4,125	3,796
Auto Expense	8,585	9,588
Contract Services	1,530	0
Office Supplies and Postage	8,641	7,457
Bank Fees	0	145
Legal and Accounting	5,875	5,800
	522,979	485,503
Operating Income	25,536	8,622
<u>NON-OPERATING REVENUES AND EXPENSES</u>		
Interest Income	250	322
Gain on Sale of Auto	0	2,500
Interest Expense	(55,813)	(57,146)
	(55,563)	(54,324)
DECREASE IN NET POSITION	(30,027)	(45,702)
NET POSITION, BEGINNING OF YEAR	3,740,889	3,786,591
NET POSITION, END OF YEAR	\$ 3,710,862	\$ 3,740,889

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in Net Position	\$ (30,027)	\$ (45,702)
Adjustments to Reconcile Operating Loss to Cash Provided by Operating Activities:		
Depreciation	132,360	125,483
Gain on Sale of Auto	0	(2,500)
Interest Expense Included in Nonoperating Expenses	55,813	57,146
(Increase) Decrease in Operating Assets:		
Accounts Receivable	267	4,221
Prepaid Insurance	498	(1,288)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(2,145)	(1,927)
Accrued Expenses	1,099	2,440
Customer Deposits	6,829	6,040
Total Adjustments	194,721	189,615
Net Cash Provided by Operating Activities	164,694	143,913
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Auto	0	2,500
Purchase of Machinery & Equipment	(75,001)	0
Net Cash Provided (Used) by Investing Activities	(75,001)	2,500
 CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Paid	(55,875)	(57,146)
Repayment of Notes Payable	(29,220)	(27,862)
Net Cash Used by Financing Activities	(85,095)	(85,008)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	4,598	61,405
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	358,400	296,995
 CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 362,998	\$ 358,400
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During Year for Interest	\$ 55,875	\$ 57,205
Reconciliation of Cash to Statements of Net Position		
Unrestricted Cash	\$ 200,374	\$ 208,868
Restricted Cash	162,624	149,532
	\$ 362,998	\$ 358,400

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 AND 2020

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>12-31-2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2021</u>
Water lines & tanks	\$ 928,748	\$		\$ 928,748
Wastewater system	5,321,244			5,321,244
Machinery & equipment	334,265	75,001		409,266
Shop buildings	66,601			66,601
Vehicles	34,464			34,464
	<u>\$ 6,685,322</u>	<u>\$ 75,001</u>		<u>\$ 6,760,323</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, 2021 AND 2020

NOTE 2: CASH AND CASH EQUIVALENTS

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

	<u>2021</u>	<u>2020</u>
<u>Unrestricted</u>		
Revenue and operating fund	\$ <u>200,374</u>	\$ <u>208,868</u>
<u>Restricted</u>		
Depreciation Fund	34,163	33,906
Meter Deposit Fund	38,669	31,840
Debt Service Reserve Fund	<u>89,792</u>	<u>83,786</u>
	<u>162,624</u>	<u>149,532</u>
	<u>\$ 362,998</u>	<u>\$ 358,400</u>

NOTE 3: LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2021</u>	<u>2020</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.	\$ 909,780	\$ 926,545
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>276,109</u>	<u>288,562</u>
	1,185,887	1,215,107
	<u>30,641</u>	<u>29,217</u>
Less current maturities	<u>\$ 1,155,246</u>	<u>\$ 1,185,890</u>

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

	Principal	Interest	Total
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
2026	37,067	48,001	85,068
Thereafter	<u>1,017,000</u>	<u>527,183</u>	<u>1,544,183</u>
	<u>\$ 1,185,887</u>	<u>\$ 783,636</u>	<u>\$ 1,969,523</u>

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

92-02	\$ 62,080
91-01	<u>26,952</u>
	<u>\$ 89,032</u>

The debt service reserve fund balance as of December 31, 2021 was \$89,792.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 were \$111,219 and \$107,438, 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

2021 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.

2021 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: 02-02-2022
Coverage: Vehicle liability and physical damage

Company: Shelter Insurance
Policy No.: 03-78-4475031-2
Expiration: 10-16-2022
Coverage: Building

Company: Municipal League Workers' Compensation Trust
Policy No: 264
Expiration: 12-31-2022
Coverage: Workmen Compensation

Company: EMC Insurance Companies
Policy No.: 2A71678-22
Expiration: 05-08-2022
Coverage: Pump station and water tank

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 2021 or 2020.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 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, 2021**

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 \$3,710,862 (net position). Of this amount, \$104,402 (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 \$5,069,889 consisting of capital assets of \$4,640,253 and other assets of \$429,636. Total assets decreased 1.0% or \$53,526 during the current fiscal year. This decrease was the net result of the current year depreciation of \$132,360, offset by a net increase in other assets of \$3,833.

Total liabilities amounted to \$1,359,027 consisting of long-term liabilities of \$1,155,246 and other liabilities of \$203,781. Total liabilities decreased 1.7% or \$23,499 during the current fiscal year. This decrease was the net result of payments on long term debt totaling \$29,220, offset by a net increase in other liabilities of \$7,145.

The System experienced an increase in total cash in the amount of \$4,598 during the current year. This increase was the result of a decrease in unrestricted cash in the amount of \$8,494 offset by an increase in restricted cash in the amount of \$13,092. The total restricted cash amounted to \$162,624 and consisted of customer meter deposits in the amount of \$38,669, funds reserved for future annual debt payments in the amount of \$89,792, and funds reserved for future replacement and repairs of the system in the amount of \$34,163.

**LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
YEAR ENDED DECEMBER 31, 2021**

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, 2021

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
<u>OPERATING REVENUES</u>			
Water and Sewer Revenues	<u>\$ 548,515</u>	<u>\$ 550,000</u>	<u>\$ (1,485)</u>
<u>OPERATING EXPENSES</u>			
Water Purchased	71,476	75,000	(3,524)
Salaries	113,204	155,000	(41,796)
Utilities	34,774	42,000	(7,226)
Insurance	8,974	7,500	1,474
Employee Health Insurance	12,246	14,000	(1,754)
Supplies and Maintenance	112,052	75,000	37,052
Payroll Taxes	9,137	10,000	(863)
Depreciation	132,360	130,000	2,360
Dues and Subscriptions	4,125	5,000	(875)
Auto Expense	8,585	10,000	(1,415)
Contract Services	1,530	5,000	(3,470)
Office Supplies and Postage	8,641	12,000	(3,359)
Bank Fees	0	0	-
Legal and Accounting	5,875	5,000	0
	<u>522,979</u>	<u>545,500</u>	<u>(23,396)</u>
Operating Income	<u>25,536</u>	<u>4,500</u>	<u>21,036</u>
<u>NON-OPERATING REVENUES AND EXPENSES</u>			
Interest Income	250	200	50
Interest Expense	<u>(55,813)</u>	<u>(56,000)</u>	<u>187</u>
	<u>(55,563)</u>	<u>(55,800)</u>	<u>237</u>
DECREASE IN NET POSITION	<u><u>\$ (30,027)</u></u>	<u><u>\$ (51,300)</u></u>	<u><u>\$ 21,273</u></u>

LONDON MUNICIPAL WATER SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2021

There were no findings or questioned costs.

JONES and LAWTON, CPAs, P.A.

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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 and Management
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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 25, 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
October 25, 2022

A handwritten signature in black ink that reads "Jones and Lawton". The signature is written in a cursive, flowing style.