

LONDON MUNICIPAL WATER SYSTEM
DECEMBER 31, 2022 AND 2021

LONDON MUNICIPAL WATER SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Net Position.....	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	8
SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	14
Budgetary Comparison Information	16
Supplementary Information Required by USDA Rural Development	17
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.....	18

JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 WEST B STREET

P O BOX 945

RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
ARKANSAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552
FAX (479) 968-8855

INDEPENDENT AUDITORS' REPORT

City Council Members and Management
London Municipal Water System
London, Arkansas

Report on the Audits of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the London Municipal Water System, as of and for the years ended December 31, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the London Municipal Water System, as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the London Municipal Water System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the London Municipal Water System'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.

Auditors' Responsibilities for the Audits 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and supplementary information, on pages 14 – 17, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the London Municipal Water System's basic financial statements. The supplementary information is presented for the purpose 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 audits 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2023, 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 audits performed in accordance with *Government Auditing Standards* in considering London Municipal Water System's internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
October 24, 2023



LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents (Note 2)			
Unrestricted		\$ 300,020	\$ 200,374
Restricted		175,405	162,624
Accounts Receivable - Net		66,256	63,614
Prepaid Insurance		2,429	3,024
Property and Equipment (Note 3)			
Water Lines and Tanks		928,748	928,748
Wastewater System		5,321,244	5,321,244
Machinery & Equipment		409,266	409,266
Shop Building		66,601	66,601
Vehicles		34,464	34,464
		6,760,323	6,760,323
Less: Accumulated Depreciation		2,253,945	2,120,070
		4,506,378	4,640,253
		5,050,488	5,069,889
	<u>LIABILITIES</u>		
Accounts Payable - Regular		6,474	5,902
Accounts Payable - General Fund		119,944	119,944
Accrued Expenses		11,512	8,625
Customer Deposits		39,568	38,669
Long-term Liabilities: (Note 4)			
Current Maturities		32,134	30,641
Due in More Than 1 Year		1,123,109	1,155,246
		1,332,741	1,359,027
	<u>NET POSITION</u>		
Net Invested in Capital Assets		3,351,135	3,454,366
Restricted		135,837	123,955
Unrestricted		230,775	132,541
		3,717,747	3,710,862
		\$ 5,050,488	\$ 5,069,889

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water and Sewer Revenues	\$ 613,030	\$ 548,515
OPERATING EXPENSES		
Water Purchased	83,092	71,476
Salaries	139,528	113,204
Utilities	24,102	34,774
Insurance	8,286	8,974
Employee Health Insurance	13,359	12,246
Supplies and Maintenance	120,388	113,582
Payroll Taxes	10,575	9,137
Depreciation	133,875	132,360
Dues and Subscriptions	7,179	4,125
Auto Expense	12,141	8,585
Office Supplies and Postage	8,786	8,641
Legal and Accounting	7,200	5,875
	<u>568,511</u>	<u>522,979</u>
Operating Income	<u>44,519</u>	<u>25,536</u>
OTHER REVENUES (EXPENSES)		
Interest Income	276	250
Insurance Claim	16,449	0
Interest Expense	(54,359)	(55,813)
	<u>(37,634)</u>	<u>(55,563)</u>
CHANGE IN NET POSITION	6,885	(30,027)
NET POSITION, BEGINNING OF YEAR	<u>3,710,862</u>	<u>3,740,889</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,717,747</u></u>	<u><u>\$ 3,710,862</u></u>

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 611,287	\$ 555,611
Other Operating Cash Receipts	16,449	0
Payments to Suppliers	(247,937)	(239,203)
Payments to Employees	(147,216)	(121,304)
Payments for Other Admin Costs	(35,429)	(30,660)
Net Cash Provided by Operating Activities	<u>197,154</u>	<u>164,444</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	0	(75,001)
Interest Received	276	250
Net Cash Used by Investing Activities	<u>276</u>	<u>(74,751)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interests Paid on Notes Payable	(54,359)	(55,875)
Repayment of Notes Payable	(30,644)	(29,220)
Net Cash Used by Financing Activities	<u>(85,003)</u>	<u>(85,095)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	112,427	4,598
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>362,998</u>	<u>358,400</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 475,425</u>	<u>\$ 362,998</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During Year for Interest	<u>\$ 54,424</u>	<u>\$ 55,875</u>
Reconciliation of Cash to Statements of Net Position		
Unrestricted	\$ 300,020	\$ 200,374
Restricted	175,405	162,624
	<u>\$ 475,425</u>	<u>\$ 362,998</u>

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from Operations	\$ 44,519	\$ 25,536
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	133,875	132,360
Other Operating Cash Receipts	16,449	0
(Increase) Decrease in Accounts Receivable	(2,642)	267
(Increase) Decrease in Prepaid Expenses	595	498
Increase (Decrease) in Accounts Payable	572	(2,145)
Increase (Decrease) in Accrued Expenses	2,887	1,099
Increase (Decrease) in Customer Deposits	899	6,829
	152,635	138,908
Net Cash Provided by Operating Activities	\$ 197,154	\$ 164,444

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The London Municipal Water System is engaged in providing water services to the public located in London, Arkansas and the surrounding rural community.

Organization

The London Municipal Water System is governed by the City Council of the City of London, Arkansas. The City Council approves the rate changes of the System. The System is a proprietary fund type utilizing enterprise funds 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.

These financial statements represent only the Water 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.

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. The 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 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 "Unrestricted Cash and Cash Equivalents" and "Restricted Cash and Cash Equivalents". The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

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. Customers are required to make a deposit which is recorded on the balance sheet. When a bad debt is identified, the deposit can be offset against the receivable to mitigate the bad debt.

Inventories

Inventories are stated at cost and consist of construction and maintenance supplies related to the water and sewer systems.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are recorded at cost and is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

Water lines & tanks	50 years
Shop buildings	39-50 years
Machinery & equipment	5 years
Vehicles	5 years

Depreciation expenses for the years ended December 31, 2022 and 2021 amounted to \$133,875 and \$132,360 respectively.

Income Tax

The London Municipal Water System is municipally owned and is exempt from Federal and State income tax pursuant to Internal Revenue Code 501(c)(12) and Arkansas Act 114 of 1957, which also exempts the System from filing Tax Form 990.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

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.

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.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2022 and 2021, the System had cash and cash equivalents as follows:

	<u>2022</u>	<u>2021</u>
Unrestricted		
Revenue and operating fund	\$ 300,020	\$ 200,374
Restricted		
Depreciation Fund	37,353	34,163
Meter Deposit Fund	39,568	38,669
Debt Service Reserve Fund	98,484	89,792
	<u>175,405</u>	<u>162,624</u>
	<u>\$ 475,425</u>	<u>\$ 362,998</u>

The Debt Service Reserve Fund has been properly funded in accordance with USDA/RD requirements for the years ended December 31, 2022 and 2021.

The Department has adequate liquidity to meet the working capital requirements for the next operating cycle.

NOTE 3: PROPERTY AND EQUIPMENT (at Cost)

At December 31, 2022, the Department had property and equipment as follows:

	<u>Balance</u> <u>12-31-2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2022</u>
Water lines & tanks	\$ 928,748			\$ 928,748
Wastewater system	5,321,244			5,321,244
Machinery & equipment	409,266			409,266
Shop buildings	66,601			66,601
Vehicles	34,464			34,464
	<u>\$ 6,760,323</u>			<u>\$ 6,760,323</u>

At December 31, 2021, the Department had property and equipment as follows:

	<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	334,266	75,001		409,266
Shop buildings	66,601			66,601
Vehicles	34,464			34,464
	<u>\$ 6,685,323</u>	<u>\$ 75,001</u>		<u>\$ 6,760,323</u>

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4: LONG-TERM DEBT

Long-term debt at December 31, 2022:

	<u>12-31-2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2022</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		\$ 17,537	\$ 892,243
 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>13,109</u>	 <u>263,000</u>
	<u>\$ 1,185,887</u>		<u>\$ 30,641</u>	<u>1,155,243</u>
Less Current Maturities Payable				<u>32,134</u>
				<u>\$ 1,123,109</u>

Future maturities on long-term notes payable at December 31, 2022:

	Principal	Interest	Total
2023	\$ 32,134	\$ 52,934	\$ 85,068
2024	33,701	51,367	85,068
2025	35,344	49,724	85,068
2026	37,068	48,000	85,068
2027	38,875	46,193	85,068
2028-2032	276,495	233,913	510,408
2033-2037	266,862	150,769	417,631
2038-2042	264,980	83,715	348,695
2043-2047	169,784	12,590	182,374
	<u>\$ 1,155,243</u>	<u>\$ 729,205</u>	<u>\$ 1,884,448</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, 2022 was \$98,494.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4: LONG-TERM DEBT (continued)

Long-term debt detail at December 31, 2021:

	<u>12-31-2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2021</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		\$ 16,764	\$ 909,780
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>12,453</u>	<u>276,109</u>
	<u>\$ 1,215,107</u>		<u>\$ 29,217</u>	<u>1,185,890</u>
Less Current Maturities Payable				<u>30,641</u>
				<u>\$ 1,155,246</u>

Future maturities on long-term notes payable at December 31, 2021:

	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
2027-2031	263,626	246,782	510,408
2032-2036	280,977	163,608	444,585
2037-2041	253,341	95,355	348,696
2042-2046	<u>219,059</u>	<u>21,435</u>	<u>240,494</u>
	<u>\$ 1,185,890</u>	<u>\$ 783,633</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.

NOTE 5: 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, 2022 and 2021 were \$223,646 and \$111,219, respectively.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 6: 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. The credit risk is considered minimal because the monthly revolving accounts receivable balances are small, the customer base is very stable with minimal changes, and the limited geographical area covered.

NOTE 7: SCHEDULE OF RATES

The water and wastewater rates for the year 2022 were unchanged from 2021 and were as follows:

2022 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.

2022 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 8: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: 02240
Expiration: 02-02-2023
Coverage: Vehicle liability and physical damage

Company: Municipal League Workers' Compensation Trust
Policy No: 264
Expiration: 12-31-2023
Coverage: Workmen Compensation

Company: EMC Insurance Companies
Policy No.: 2A71678-22
Expiration: 05-08-2023
Coverage: Pump station and water tank

NOTE 10: 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 2022 or 2021.

NOTE 11: SUBSEQUENT EVENTS

The System considers there to be no significant events to be reported through October 19, 2022, which is the date the financial statements were available to be issued.

LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2022

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 presents 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 presents 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 presents 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 presents 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 presents 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 \$3,717,747 (net position). Of this amount, \$230,775 (unrestricted net position) may be used to meet the System's ongoing obligations to customers and creditors.

The largest portion of the System's net assets, representing 90.1%, 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 \$5,050,488 consisting of net capital assets of \$4,506,378 and other assets of \$544,110. Total assets decreased .4% or \$19,401 during the current fiscal year. This decrease was the net result of the current year depreciation of \$133,875, offset by a net increase in other assets of \$114,474.

Total liabilities amounted to \$1,332,741 consisting of long-term liabilities of \$1,123,109 and other liabilities of \$209,632. Total liabilities decreased 2.0% or \$26,286 during the current fiscal year. This decrease was the net result of payments on long term debt totaling \$32,137, offset by a net increase in other liabilities of \$5,851.

The System experienced an increase in total cash in the amount of \$112,427 during the current year. This increase was the result of an increase in unrestricted cash in the amount of \$99,646 and an increase in restricted cash in the amount of \$12,781. The total restricted cash amounted to \$175,405 and consisted of customer meter deposits in the amount of \$39,568, funds reserved for future annual debt payments in the amount of \$98,484, and funds reserved for future replacement and repairs of the system in the amount of \$37,353.

**LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED DECEMBER 31, 2022**

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, 2022

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
OPERATING REVENUES			
Water and Sewer Revenues	<u>\$ 613,030</u>	<u>\$ 600,000</u>	<u>\$ 13,030</u>
<u>OPERATING EXPENSES</u>			
Water Purchased	83,092	90,000	(6,908)
Salaries	139,528	155,000	(15,472)
Utilities	24,102	52,000	(27,898)
Insurance	8,286	8,500	(214)
Employee Health Insurance	13,359	18,600	(5,241)
Supplies and Maintenance	120,388	128,000	(7,612)
Payroll Taxes	10,575	10,000	575
Depreciation	133,875	130,000	3,875
Dues and Subscriptions	7,179	7,500	(321)
Auto Expense	12,141	10,000	2,141
Office Supplies and Postage	8,786	1,500	7,286
Legal and Accounting	7,200	5,000	0
	<u>568,511</u>	<u>616,100</u>	<u>(49,789)</u>
Operating Income	<u>44,519</u>	<u>(16,100)</u>	<u>60,619</u>
OTHER REVENUES (EXPENSES)			
Interest Income	276	200	76
Insurance Claim	16,449	0	16,449
Interest Expense	(54,359)	(55,000)	641
	<u>(37,634)</u>	<u>(54,800)</u>	<u>17,166</u>
CHANGE IN NET POSITION	<u>\$ 6,885</u>	<u>\$ (70,900)</u>	<u>\$ 77,785</u>

See Independent Auditors' Report and Notes to Financial Statements

LONDON MUNICIPAL WATER SYSTEM
SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT
YEAR ENDED DECEMBER 31, 2022

Monthly Water and Sewer Rates: All charges shall be based on water consumption, and the amount to be paid by each customer shall be computed on the basis of the following schedule of rates:

	<u>Water</u>	<u>Sewer</u>
For the first 1,000 gallons of water consumption per month, or portion thereof	\$ 18.61 (Minimum)	\$ 30.00 (Minimum)
Water consumption thereafter	See Note #6	See Note #6

The number of water and sewer customers billed during the year ended December 31, 2022 averaged 646.

Total gallons of water purchased during the year ended December 31, 2022 amounted to 35,008,237.

Total gallons of water sold during the year ended December 31, 2022 amounted to 32,436,161.

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

See the accompanying 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*.

JONES and LAWTON, CPAs, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1106 WEST B STREET

P O BOX 945

RUSSELLVILLE, AR 72811

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

ARKANSAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

WAYNE A. JONES, CPA
WILLIAM L. LAWTON, JR., CPA

TEL (479) 968-2552

FAX (479) 968-8855

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 Members 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the London Municipal Water System, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the London Municipal Water System's basic financial statements, and have issued our report thereon dated October 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the London Municipal Water System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the London Municipal Water System's internal control. Accordingly, we do not express an opinion on the effectiveness of the London Municipal Water System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audits 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.

Report on Compliance and Other Matters

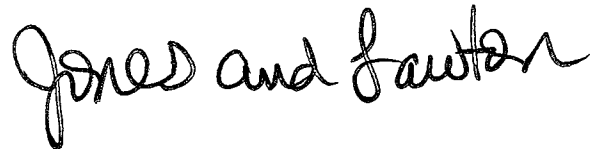
As part of obtaining reasonable assurance about whether the London Municipal Water System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 24, 2023

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