

LONDON MUNICIPAL WATER SYSTEM

DECEMBER 31, 2023 AND 2022

LONDON MUNICIPAL WATER SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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INDEPENDENT AUDITORS' REPORT

City Council 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 each major fund, of the London Municipal Water System, a component unit of the City of London, as of and for the years ended December 31, 2023 and 2022, 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 each major fund of the London Municipal Water System, as of December 31, 2023 and 2022, 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 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 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 audits.
- 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 audits 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 audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 14–15 and 16 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

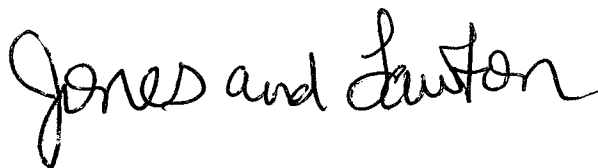
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the London Municipal Water System's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2024, 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 London Municipal Water System's internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
October 2, 2024

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

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents (Note 2)		
Unrestricted	\$ 377,327	\$ 300,020
Restricted	166,068	175,405
Accounts Receivable - Net	45,893	66,256
Prepaid Insurance	2,447	2,429
Property and Equipment (Note 3)		
Water Lines and Tanks	926,257	928,748
Wastewater System	5,321,244	5,321,244
Machinery & Equipment	270,586	409,266
Shop Building	66,601	66,601
Vehicles	23,009	34,464
	<u>6,607,697</u>	<u>6,760,323</u>
Less: Accumulated Depreciation	<u>2,234,969</u>	<u>2,253,945</u>
	<u>4,372,728</u>	<u>4,506,378</u>
	<u>4,964,463</u>	<u>5,050,488</u>

LIABILITIES

Accounts Payable - Regular	8,155	6,474
Accounts Payable - General Fund	119,944	119,944
Accrued Expenses	7,506	11,512
Customer Deposits	40,277	39,568
Long-term Liabilities: (Note 4)		
Current Maturities	33,701	32,134
Due in More Than 1 Year	1,089,405	1,123,109
	<u>1,298,988</u>	<u>1,332,741</u>

NET POSITION

Net Invested in Capital Assets	3,249,622	3,351,135
Restricted	125,791	135,837
Unrestricted	290,062	230,775
	<u>3,665,475</u>	<u>3,717,747</u>
	<u>\$ 4,964,463</u>	<u>\$ 5,050,488</u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water and Sewer Revenues	\$ 607,084	\$ 613,030
OPERATING EXPENSES		
Water Purchased	89,973	83,092
Bad debts Expense	20,268	0
Salaries	146,514	139,528
Payroll Taxes	11,002	10,575
Supplies and Maintenance	80,790	78,983
Chemicals	34,430	41,405
Utilities	41,357	24,102
Auto Expense	13,134	12,141
Insurance	8,646	8,286
Employee Health Insurance	13,381	13,359
Office Supplies and Postage	9,262	8,786
Dues and Subscriptions	5,557	7,179
Legal and Accounting	6,100	7,200
Depreciation	133,651	133,875
	<u>614,065</u>	<u>568,511</u>
Operating Income	<u>(6,981)</u>	<u>44,519</u>
OTHER REVENUES (EXPENSES)		
Interest Income	7,571	276
Insurance Claim	0	16,449
Interest Expense	(52,862)	(54,359)
	<u>(45,291)</u>	<u>(37,634)</u>
CHANGE IN NET POSITION	(52,272)	6,885
NET POSITION, BEGINNING OF YEAR	<u>3,717,747</u>	<u>3,710,862</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,665,475</u></u>	<u><u>\$ 3,717,747</u></u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 607,888	\$ 611,287
Other Operating Cash Receipts	0	16,449
Payments to Suppliers	(267,266)	(247,937)
Payments to Employees	(161,522)	(147,216)
Payments for Other Admin Costs	(33,702)	(35,429)
Net Cash Provided by Operating Activities	<u>145,398</u>	<u>197,154</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	7,571	276
Net Cash Provided by Investing Activities	<u>7,571</u>	<u>276</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interests Paid on Notes Payable	(52,862)	(54,359)
Repayment of Notes Payable	(32,137)	(30,644)
Net Cash Used by Financing Activities	<u>(84,999)</u>	<u>(85,003)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	67,970	112,427
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>475,425</u>	<u>362,998</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 543,395</u></u>	<u><u>\$ 475,425</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During Year for Interest	<u><u>\$ 52,862</u></u>	<u><u>\$ 54,424</u></u>
Reconciliation of Cash to Statements of Net Position		
Unrestricted	\$ 377,327	\$ 300,020
Restricted	166,068	175,405
	<u><u>\$ 543,395</u></u>	<u><u>\$ 475,425</u></u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income (Loss) from Operations	\$ (6,981)	\$ 44,519
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	133,651	133,875
Other Operating Cash Receipts	0	16,449
(Increase) Decrease in Accounts Receivable	20,363	(2,642)
(Increase) Decrease in Prepaid Expenses	(18)	595
Increase (Decrease) in Accounts Payable	1,681	572
Increase (Decrease) in Accrued Expenses	(4,007)	2,887
Increase (Decrease) in Customer Deposits	709	899
	<u>152,379</u>	<u>152,635</u>
Net Cash Provided by Operating Activities	<u>\$ 145,398</u>	<u>\$ 197,154</u>

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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, 2023 AND 2022

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, 2023 and 2022 amounted to \$133,651 and \$133,875 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.

Compensated absences

The Company accrues for the costs of compensated absences to the extent that the employee's right to receive payment related to service already rendered, the obligation vests or accumulates, payment is probable, and the amount can be reasonably estimated. Forfeiture due to turnover is not reasonably predictable except in instances when an employee gives their notice.

The Company has not accrued a liability for compensated absences in accordance with Accounting Standards Codifications 710, *Compensation* – General, as the amount of the liability could not be reasonably estimated at December 31, 2023 and 2022.

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.

Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, trade receivables, and trade payables. The carrying amounts of these financial instruments have been estimated by management to approximate fair value.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 2: CASH AND CASH EQUIVALENTS

At December 31, 2023 and 2022, the System had cash and cash equivalents as follows:

	<u>2023</u>	<u>2022</u>
Unrestricted		
Revenue and operating fund	\$ 377,327	\$ 300,020
Restricted		
Depreciation Fund	41,083	37,353
Meter Deposit Fund	40,277	39,568
Debt Service Reserve Fund	84,708	68,703
	<u>166,068</u>	<u>175,405</u>
	<u>\$ 543,395</u>	<u>\$ 475,425</u>

Wastewater Loan 92-02

The District is required by USDA Rural Development to maintain a debt service reserve for the payment of principal and interest in the event the District should lack adequate funds for the scheduled payments. The minimum monthly funding was \$485 for the first ten years of the loan, dated April 23, 2009. The total required funding of the debt is \$58,116.

The District is required by USDA Rural Development to maintain a short-lived asset replacement fund for the replacement of the related project.. The annual amount of the required deposit to the replacement fund for the term of the loan is \$3,167.

Water Loan 91-01

The District is required by USDA Rural Development to maintain a debt service reserve for the payment of principal and interest in the event the District should lack adequate funds for the scheduled payments. The minimum monthly funding was \$225 for the first ten years of the loan, dated April 5, 2001. The total required funding of the debt is \$26,592.

The District is required by USDA Rural Development to maintain a short-lived asset replacement fund for the replacement of the related project.. When the project debt service reserve was fully funded, a depreciation reserve was established by depositing \$225 per month for the remainder of the loan term.

The Debt Service Reserve and the Depreciation Reserve have been properly funded in accordance with USDA/RD requirements for the years ended December 31, 2023 and 2022.

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

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 3: PROPERTY AND EQUIPMENT (at Cost)

At December 31, 2023, the Department had property and equipment as follows:

	<u>Balance</u> <u>12-31-2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2023</u>
Water lines & tanks	\$ 928,748		\$ 2,491	\$ 926,257
Wastewater system	5,321,244			5,321,244
Machinery & equipment	409,266		138,680	270,586
Shop buildings	66,601			66,601
Vehicles	34,464		11,455	23,009
	<u>\$ 6,760,323</u>		<u>\$ 152,626</u>	<u>\$ 6,607,697</u>

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>

NOTE 4: LONG-TERM DEBT

Long-term debt at December 31, 2023:

	<u>12-31-2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2023</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.	\$ 892,243		\$ 18,342	\$ 873,901
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.	263,000		13,795	249,205
	<u>\$ 1,155,243</u>		<u>\$ 32,137</u>	1,123,106
Less Current Maturities Payable				33,701
				<u>\$ 1,089,405</u>

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 4: LONG-TERM DEBT (continued)

Future maturities on long-term notes payable at December 31, 2023:

	Principal	Interest	Total
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	40,771	44,297	85,068
2029-2033	235,723	189,617	425,340
2034-2038	229,232	130,283	359,515
2039-2043	206,240	84,340	290,580
2044-2048	258,170	32,410	290,580
2049	7,983	42	8,025
	<u>\$ 1,123,107</u>	<u>\$ 676,273</u>	<u>\$ 1,799,380</u>

Long-term debt detail 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>

NOTE 5: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

The System maintains cash balances with one bank located in Arkansas. The balances at this bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. The System has obtained pledged securities for all funds that exceed this Federal Deposit Insurance limit.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

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 2023 were as follows:

2023 Monthly Water Rates:

- a. Minimum charge, inside city limits, on first 1,000 gallons, \$20.34
- b. Minimum charge, outside city limits, on first 1,000 gallons, \$26.77
- c. Charge of \$14.61 per 1,000 gallons for the next 4,000 gallons
- d. Charge of \$11.54 per 1,000 gallons for the next 5,000 gallons
- e. Charge of \$10.36 per 1,000 gallons for the usage over 10,000 gallons
- f. Bulk rate \$14.54 per 1,000 gallons.

2023 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.

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

2022 Monthly Water Rates:

- g. Minimum charge, inside city limits, on first 1,000 gallons, \$19.75
- h. Minimum charge, outside city limits, on first 1,000 gallons, \$25.99
- i. Charge of \$14.18 per 1,000 gallons for the next 4,000 gallons
- j. Charge of \$11.20 per 1,000 gallons for the next 5,000 gallons
- k. Charge of \$10.06 per 1,000 gallons for the usage over 10,000 gallons
- l. Bulk rate \$14.12 per 1,000 gallons.

2022 Monthly Wastewater Rates:

- c. Minimum charge on first 1,000 gallons, \$30.00
- d. 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: 02-02-2024
Coverage: Vehicle liability and physical damage

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

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8: INSURANCE COVERAGE (continued)

Company: EMC Insurance Companies
Policy No.: 2A71678-24
Expiration: 05-08-2024
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 2023 or 2022.

NOTE 11: SUBSEQUENT EVENTS

The System considers there to be no significant events to be reported through October 2, 2024, 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, 2023

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 \$3,665,475 (net position). Of this amount, \$290,062 (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 88.6%, 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 \$4,964,463 consisting of net capital assets of \$4,372,728 and other assets of \$591,735. Total assets decreased 1.7% or \$86,025 during the current fiscal year. This decrease was the net result of the current year depreciation of \$133,651, offset by a net increase in other assets of \$47,625.

Total liabilities amounted to \$1,298,988 consisting of long-term liabilities of \$1,089,405 and other liabilities of \$209,583. Total liabilities decreased 2.5% or \$33,753 during the current fiscal year. This decrease was the net result of payments on long term debt totaling \$33,704, plus a net decrease in other liabilities of \$49.

The System experienced an increase in total cash in the amount of \$67,970 during the current year. This increase was the result of an increase in unrestricted cash in the amount of \$77,307 and a decrease in restricted cash in the amount of \$9,337. The total restricted cash amounted to \$166,068 and consisted of customer meter deposits in the amount of \$40,277, funds reserved for future annual debt payments in the amount of \$84,708, and funds reserved for future replacement and repairs of the system in the amount of \$41,083.

**LONDON MUNICIPAL WATER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED DECEMBER 31, 2023**

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, 2023

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
OPERATING REVENUES			
Water and Sewer Revenues	\$ 607,084	\$ 613,000	\$ (5,916)
<u>OPERATING EXPENSES</u>			
Water Purchased	89,973	90,000	(27)
Bad Debts	20,268	0	20,268
Salaries	146,514	155,000	(8,486)
Payroll Taxes	11,002	12,000	(998)
Supplies and Maintenance	80,790	113,500	(32,710)
Chemicals	34,430	20,000	14,430
Utilities	41,357	47,500	(6,143)
Auto Expense	13,134	10,000	3,134
Insurance	8,646	10,000	(1,354)
Employee Health Insurance	13,381	18,000	(4,619)
Office Supplies and Postage	9,262	15,000	(5,738)
Dues and Subscriptions	5,557	7,500	(1,943)
Legal and Accounting	6,100	7,500	(1,400)
Depreciation	133,651	133,000	651
	<u>614,065</u>	<u>639,000</u>	<u>(24,935)</u>
Operating Income	<u>(6,981)</u>	<u>(26,000)</u>	<u>19,019</u>
OTHER REVENUES (EXPENSES)			
Interest Income	7,571	200	7,371
Interest Expense	<u>(52,862)</u>	<u>(55,000)</u>	<u>2,138</u>
	<u>(45,291)</u>	<u>(54,800)</u>	<u>9,509</u>
CHANGE IN NET POSITION	<u>\$ (52,272)</u>	<u>\$ (80,800)</u>	<u>\$ 28,528</u>

LONDON MUNICIPAL WATER SYSTEM
SUPPLEMENTARY INFORMATION REQUIRED BY USDA RURAL DEVELOPMENT
YEAR ENDED DECEMBER 31, 2023

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	\$ 20.34 (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, 2023 averaged 552.

Total gallons of water purchased during the year ended December 31, 2023 amounted to 37,608,000,.

Total gallons of water sold during the year ended December 31, 2023 amounted to 25,410,164.

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

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WILLIAM L. LAWTON, JR., CPA

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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 business-type activities of each major fund of the London Municipal Water System, a component unit of the City of London, as of and for the years ended December 31, 2023 and 2022, 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 2, 2024.

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

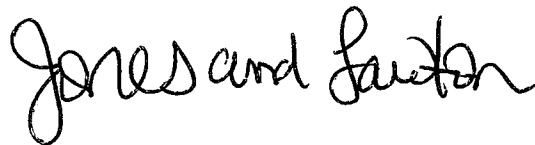
As part of obtaining reasonable assurance about whether the London Municipal Water System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 2, 2024

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