

LONDON MUNICIPAL WATER SYSTEM

FINANCIAL STATEMENTS

DECEMBER 31, 2024

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

City Council and Management
London Municipal Water System
London, Arkansas

We have performed the procedures enumerated below on the financial and billing records of London Municipal Water System as of and for the year ended December 31, 2024. The London Municipal Water System's management is responsible for the financial and billing records.

The London Municipal Water System has agreed to and acknowledged that the procedures performed are appropriate to meet their intended purpose, which is to comply with Arkansas Code Annotated §§ 14-234-119 through 14-234-122 and *Guidelines for Conducting Agreed-Upon Procedures for Water Service providers* as prepared by Arkansas Legislative Audit. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purpose.

The procedures and associated findings are as follows:

Cash and Investments

1. a. Perform a proof of cash for the year and reconcile year-end bank balances to book balance.
- b. Confirm with depository institutions the cash on deposit and investments.
- c. Agree the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

We found no exceptions as a result of these procedures.

Receipts

2. a. Agree the deposits per the proof of cash for the year with the deposits per the journal within 5% or \$500, whichever is greater.
- b. Agree ten customer payments on the accounts receivable subledger to deposit and billing documents.
- c. For ten deposits, agree the cash/check composition of the deposit with receipt information.

We found no exceptions as a result of these procedures.

Accounts Receivable

3. a. Agree ten customer billings to the accounts receivable subledger.
- b. Determine that five customer adjustments were properly authorized.

All adjustments were approved by the water clerk, and we found no exceptions as a result of these procedures.

Disbursements

4. a. Agree the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$500, whichever is greater.
- b. Analyze all property, plant, and equipment disbursements.
- c. Select all disbursements paid to employees other than payroll and ten other disbursements and determine that they were adequately documented.

We found no exceptions as a result of these procedures.

Property, Plant, and Equipment

5. Determine that additions and disposals were properly accounted for in the records. (Materiality level – 5% of total equipment or \$500, whichever is greater.)

We found no exceptions as a result of this procedure.

Long-term Debt

6. a. Schedule long-term debt and verify changes in all balances for the year.
- b. Confirm loans, bonds, notes, and contracts payable with lender/trustee/contractor.
- c. Determine that the appropriate debt service accounts have been established and maintained.

We found no exceptions as a result of these procedures.

General

7. Determine that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

We found no exceptions as a result of this procedure.

We were engaged by the London Municipal Water System to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the financial and billing records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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 related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the London Municipal Water System Management, and Arkansas Office of Legislative Audit and is not intended to be and should not be used by anyone other than those specified parties.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
January 27, 2026



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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

City Council and Management
London Municipal Water System
London, Arkansas

Management is responsible for the accompanying financial statements of the London Municipal Water System which comprise the statement of net position as of December 31, 2024 and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United State of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of the financial for placing the financial statements in an appropriate operational, economic or historical context.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
January 27, 2026



LONDON MUNICIPAL WATER SYSTEM
STATEMENT OF NET POSITION
DECEMBER 31, 2024

ASSETS

Cash and Cash Equivalents (Note 2)	
Unrestricted	\$ 417,504
Restricted	203,666
Accounts Receivable - Net	49,039
Prepaid Insurance	3,787
	<u>673,996</u>
PROPERTY AND EQUIPMENT, at cost (Note 3)	
Water Lines and Tanks	926,257
Wastewater System	5,321,244
Machinery & Equipment	274,906
Shop Buildings	66,601
Vehicles	62,527
	<u>6,651,535</u>
Less: Accumulated Depreciation	2,354,646
	<u>4,296,889</u>
	<u>4,970,885</u>

LIABILITIES

Accounts Payable - Regular	5,291
Accounts Payable - General Fund	119,944
Accrued Expenses	9,011
Customer Deposits	41,978
Long-term Liabilities	
Due Within 1 Year	35,344
Due in More Than 1 Year	1,054,059
	<u>1,265,627</u>

NET POSITION

Net Invested in Capital Assets	3,207,486
Restricted	161,688
Unrestricted	336,084
	<u>3,705,258</u>
	<u>\$ 4,970,885</u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2024

OPERATING REVENUES	
Water and Sewer Revenues	\$ 644,757
OPERATING EXPENSES	
Water Purchased	95,356
Salaries	144,480
Payroll Taxes	11,106
Supplies and Maintenance	62,826
Chemicals	38,663
Utilities	31,165
Auto Expense	10,979
Insurance	7,750
Employee Health Insurance	13,737
Office Supplies and Postage	12,803
Dues and Subscriptions	4,892
Legal and Accounting	6,000
Depreciation	142,686
	<u>582,443</u>
OPERATING INCOME	<u>62,314</u>
OTHER INCOME (EXPENSE)	
Interest Income	21,134
Interest Expense	(51,292)
Gain on sale of Fixed Assets	7,627
	<u>(22,531)</u>
CHANGE IN NET POSITION	39,783
NET POSITION, BEGINNING OF YEAR	<u>3,665,475</u>
NET POSITION, END OF YEAR	<u><u>\$ 3,705,258</u></u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Water Customers	\$ 641,793
Payments to Suppliers	(254,657)
Payments to Employees	(154,191)
Payments for Other Admin Costs	(33,717)
Net Cash Provided by Operating Activities	<u>199,228</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Increase (Decrease) in Customers' Deposits	<u>1,701</u>
Net Cash Provided by Non-Capital Financing Activities	<u>1,701</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(59,221)
Interest Received	21,134
Net Cash Used by Investing Activities	<u>(38,087)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Interest Paid on Notes Payable	\$ (51,364)
Repayment of Notes Payable	(33,703)
Net Cash Used by Financing Activities	<u>(85,067)</u>
 CHANGE IN CASH AND CASH EQUIVALENTS	 77,775
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>543,395</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 621,170</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Paid During Year for Interest	<u>\$ 51,364</u>
Reconciliation of Cash to Statements of Net Position	
Unrestricted	\$ 417,504
Restricted	203,666
	<u>\$ 621,170</u>

LONDON MUNICIPAL WATER SYSTEM
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2024

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:**

Income from Operations	\$ 62,314
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:	
Depreciation and Amortization	142,686
(Increase) Decrease in Accounts Receivable	(3,146)
(Increase) Decrease in Prepaid Expenses	(1,340)
Increase (Decrease) in Accounts Payable	(2,864)
Increase (Decrease) in Accrued Expenses	1,578
	<hr/>
	136,914
	<hr/>
Net Cash Provided by Operating Activities	\$ 199,228

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

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

Management considers accounts receivable to be fully collectable. If amounts become uncollectable, they will be charged to operations when the determination is made. 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.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

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

Depreciation expenses for the year ended December 31, 2024 amounted to \$142,686.

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 London Municipal Water System 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 Water System 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, 2024.

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.

LONDON MUNICIPAL WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The London Municipal Water System’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.

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, 2024, the System had cash and cash equivalents as follows:

Unrestricted	
Revenue and operating fund	<u>\$ 417,504</u>
Restricted	
Depreciation Fund	76,980
Meter Deposit Fund	41,978
Debt Service Reserve Fund	<u>84,708</u>
	<u>203,666</u>
	<u>\$ 621,170</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 year ended December 31, 2024.

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, 2024

NOTE 3: PROPERTY AND EQUIPMENT (at Cost)

At December 31, 2024, the Department had property and equipment as follows:

	<u>Balance</u> <u>12-31-2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12-31-2024</u>
Water lines & tanks	\$ 926,257			\$ 926,257
Wastewater system	5,321,244			5,321,244
Machinery & equipment	270,583	\$ 4,323		274,906
Shop buildings	66,601			66,601
Vehicles	23,009	<u>62,527</u>	<u>\$ 23,009</u>	<u>62,527</u>
	<u>\$ 6,607,694</u>	<u>\$ 66,850</u>	<u>\$ 23,009</u>	<u>\$ 6,651,535</u>

NOTE 4: LONG-TERM DEBT

Long-term debt at December 31, 2024:

	<u>12-31-2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-2024</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.	\$ 873,901		\$ 19,184	\$ 854,717
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>249,205</u>		<u>14,519</u>	<u>234,686</u>
	<u>\$ 1,123,106</u>		<u>\$ 33,703</u>	<u>1,089,403</u>
Less Current Maturities Payable				<u>35,344</u>
				<u>\$ 1,054,059</u>

Maturities on long-term debt at December 31, 2024:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	42,761	42,307	85,068
2030-2034	247,232	178,108	425,340
2035-2039	212,590	119,973	332,563
2040-2044	215,715	74,865	290,580
2045-2049	219,047	21,439	240,486
	<u>\$ 1,089,403</u>	<u>\$ 624,906</u>	<u>\$ 1,714,309</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, 2024

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 2024 were as follows:

2024 Monthly Water Rates:

- a. Minimum charge, inside city limits, on first 1,000 gallons, \$20.95
- b. Minimum charge, outside city limits, on first 1,000 gallons, \$27.57
- c. Charge of \$15.05 per 1,000 gallons for the next 4,000 gallons
- d. Charge of \$11.89 per 1,000 gallons for the next 5,000 gallons
- e. Charge of \$10.67 per 1,000 gallons for the usage over 10,000 gallons
- f. Bulk rate \$14.98 per 1,000 gallons.

2024 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: 02-02-2025
Coverage: Vehicle liability and physical damage

Company: Municipal League Workers' Compensation Trust
Policy No: 264
Expiration: 12-31-2024
Coverage: Workmen Compensation

Company: EMC Insurance Companies
Policy No.: 2A71678-24
Expiration: 05-08-2025
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 2024.

NOTE 11: SUBSEQUENT EVENTS

The System considers there to be no significant events to be reported through January 27, 2026, which is the date the financial statements were available to be issued.