

CITY OF MAGAZINE WATER AND SEWER
DEPARTMENT

JULY 31, 2020 AND 2019

CITY OF MAGAZINE
WATER AND SEWER DEPARTMENT
FINANCIAL STATEMENTS
JULY 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

City Council
City of Magazine Water and Sewer Department
Magazine, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Magazine Water and Sewer Department, as of and for the years ended July 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the City of Magazine Water and Sewer Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10-11 and budgetary comparison information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2021 on our consideration of the City of Magazine Water and Sewer Department'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 City of Magazine Water and Sewer Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Magazine Water and Sewer Department's internal control over financial reporting and compliance.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
December 1, 2021



CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
JULY 31, 2020 AND 2019

	<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents (Note 2)			
Unrestricted		\$ 56,073	\$ 53,393
Restricted		112,956	69,907
Accounts Receivable		31,644	53,507
Inventory		11,100	11,100
Other Current Assets		12,758	14,513
Property and Equipment:			
Water System		669,182	669,182
Sewer System		1,456,716	1,456,716
Office Equipment		20,020	20,020
		2,145,918	2,145,918
Less: Accumulated Depreciation		1,394,537	1,351,486
		751,381	794,432
		975,912	996,852
	<u>LIABILITIES</u>		
Accounts Payable		12,566	14,000
Accrued Expenses		2,678	1,658
Customer Deposits		31,028	29,907
		46,272	45,565
	<u>NET POSITION</u>		
Invested in Capital Assets		751,381	794,432
Restricted Net Assets		81,928	40,000
Unrestricted Net Assets		96,331	116,855
		929,640	951,287
		\$ 975,912	\$ 996,852

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
<u>OPERATING REVENUES</u>		
Water and Sewer Revenues	\$ 324,482	\$ 322,948
<u>OPERATING EXPENSES</u>		
Water Purchased	98,964	100,380
Salaries	104,685	93,927
Utilities	14,020	19,453
Insurance	15,929	13,605
Supplies and Maintenance	15,278	13,714
Payroll Taxes	7,993	7,183
Depreciation	43,051	44,675
Permits and Licenses	5,312	6,556
Office Expense	6,261	6,555
Auto Expense	7,917	8,099
Dues and Subscriptions	5,233	4,106
Miscellaneous	903	781
Legal and Accounting	0	2,600
Bad Dept Expense	20,662	0
	346,208	321,634
Operating Income (Loss)	(21,726)	1,314
<u>NONOPERATING REVENUES AND EXPENSES</u>		
Interest Income	79	143
	79	143
INCREASE (DECREASE) IN NET POSITION	(21,647)	1,457
NET POSITION, BEGINNING OF YEAR	951,287	949,830
NET POSITION, END OF YEAR	\$ 929,640	\$ 951,287

See Independent Auditors' Report and Notes to Financial Statements

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Position	\$ (21,647)	\$ 1,457
Adjustments to Reconcile Operating Loss to Cash Provided by Operating Activities:		
Depreciation	43,051	44,675
(Increase) Decrease in Operating Assets:		
Accounts Receivable	21,863	1,462
Other Current Assets	1,755	(2,167)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(1,434)	1,451
Accrued Expenses	1,020	(287)
Customer Deposits	1,121	2,695
Total Adjustments	67,376	47,829
Net Cash Provided by Operating Activities	45,729	49,286
 NET INCREASE IN CASH & CASH EQUIVALENTS	 45,729	 49,286
 CASH & CASH EQUIVALENTS, BEGINNING OF YEAR	 123,300	 74,014
 CASH & CASH EQUIVALENTS, END OF YEAR	 169,029	 123,300
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
RECONCILIATION OF CASH TO STATEMENTS OF NET POSITION		
Unrestricted Cash	56,073	53,393
Restricted Cash	112,956	69,907
	\$ 169,029	\$ 123,300

See Independent Auditors' Report and Notes to Financial Statements

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Fund Accounting

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

Organization

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

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2020 AND 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation

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

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

Property and Equipment

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

	<u>Balance</u> <u>7-31-2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>7-31-2020</u>
Water System	\$ 669,182			\$ 669,182
Sewer System	1,456,716			1,456,716
Office Equipment	20,020			20,020
	<u>\$ 2,145,918</u>			<u>\$ 2,145,918</u>

Income Tax

The City of Magazine Water and Sewer Department is municipally owned and is exempt from Federal and State income tax.

Use of Estimates

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

Accounts Receivable and Bad Debts

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

Regulatory Environment

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

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2020 AND 2019

NOTE 2: CASH AND CASH EQUIVALENTS

The cash balance as of July 31 is composed of unrestricted and restricted funds as follows:

	<u>2020</u>	<u>2019</u>
<u>Unrestricted</u>		
Water & Sewer Revenue	\$ 55,823	\$ 53,393
 <u>Restricted</u>		
Depreciation Fund	81,928	40,000
Water Meter Fund	<u>31,028</u>	<u>29,907</u>
	<u>112,956</u>	<u>69,907</u>
	<u>\$ 168,779</u>	<u>\$ 123,300</u>

NOTE 3: FINANCIAL INSTRUMENTS WITH RISK OF ACCOUNTING LOSS

Deposits in financial institutions are financial instruments that could potentially subject the Department to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The Department maintains all deposit balances in one financial institution, and has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on deposits. There were no uninsured/uncollateralized deposits on July 31, 2020 and 2019.

NOTE 4: CONCENTRATION OF CREDIT RISK

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

NOTE 5: SCHEDULE OF RATES

2020 Monthly Water Rates:

- a. Minimum charge on first 1,000 gallons, \$15.75
- b. Charge of \$4.05 per 1,000 gallons for the next 4,000 gallons
- c. Charge of \$2.78 per 1,000 gallons for the next 5,000 gallons
- d. Charge of \$2.71 per 1,000 gallons for the usage over 10,000 gallons

2020 Monthly Wastewater Rates:

- a. Minimum charge on first 1,000 gallons, \$11.50
- b. Charge of \$5.40 per 1,000 gallons for the next 2,000 gallons
- c. Charge of \$1.70 per 1,000 gallons for the usage over 3,000 gallons.

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2020 AND 2019

NOTE 6: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: PNC546VPR
Expiration: 09-14-2020
Coverage: Vehicle liability and physical damage

Company: Arkansas Municipal League
Policy No.: PNC546PPR
Expiration: 02-03-2021
Coverage: Property

Company: Municipal League Workers' Compensation Trust
Policy No: 272
Expiration: 12-31-2020
Coverage: Workmen Compensation

NOTE 7: SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 1, 2021 the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JULY 31, 2020

The City of Magazine Water and Sewer Department management's discussion and analysis is designed to:

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

Overview of the Financial Statements

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

The statements of net position present information on all the Department'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 Department by providing the basis for evaluating the capital structure of the Department and assessing the liquidity and financial flexibility of the Department.

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

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

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

Financial Analysis of the Department

The assets of the Department exceeded its liabilities at the close of the most recent fiscal year by \$929,640 (net position). Of this amount, \$96,331 (unrestricted net assets) may be used to meet the Departments's ongoing obligations to customers and creditors.

The largest portion of the Department's net assets, representing 80.8%, reflects its net investment in capital assets. The Department uses these capital assets to provide services to its customers.

Total assets amounted to \$975,912 consisting of net capital assets of \$751,381 and other assets of \$224,531. Total assets decreased 2.1% or \$20,940 during the current fiscal year. This decrease was the net result of current year depreciation of \$43,051 and a net increase in other assets of \$22,111.

Total liabilities amounted to \$46,272 consisting of current liabilities. Total liabilities increased 1.6% or \$707 during the current fiscal year.

The Department experienced an increase in total cash in the amount of \$45,729 during the current year. This increase was the result of an increase in unrestricted cash in the amount of \$2,680 and an increase in restricted cash in the amount of \$43,049. The total restricted cash amounted to \$112,956 and consisted of customer meter deposits in the amount of \$31,028, and funds reserved for future replacement and repairs of the system in the amount of \$81,928.

Economic Factors

The Department indicated no changes related to current economic factors.

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)
YEAR ENDED JULY 31, 2020

Request for Information

This report is designed to provide a general overview of the Departments's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Magazine Water and Sewer Department, 23 N Hwy 109, Magazine, Arkansas 72943.

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
BUDGETARY COMPARISON INFORMATION
YEAR ENDED JULY 31, 2020

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE</u>
<u>OPERATING REVENUES</u>			
Water and Sewer Revenues	\$ 324,482	\$ 340,000	\$ (15,518)
<u>OPERATING EXPENSES</u>			
Water Purchased	98,964	101,895	(2,931)
Salaries	104,685	100,000	4,685
Utilities	14,020	12,000	2,020
Insurance	15,929	5,300	10,629
Supplies and Maintenance	15,278	17,000	(1,722)
Payroll Taxes	7,993	6,000	1,993
Depreciation	43,051	48,000	(4,949)
Dues and Subscriptions	5,233	3,000	2,233
Auto Expense	7,917	6,700	1,217
Permits and Licenses	5,312	5,000	312
Office Supplies and Postage	6,261	5,800	461
Miscellaneous	903	23,200	(22,297)
Legal and Accounting	-	3,200	(3,200)
Bad Dept Expense	20,662	3,105	17,557
	<u>346,208</u>	<u>340,200</u>	<u>6,008</u>
Operating Income (Loss)	<u>(21,726)</u>	<u>(200)</u>	<u>(21,526)</u>
<u>NONOPERATING REVENUES AND EXPENSES</u>			
Interest Income	79	200	(121)
	<u>79</u>	<u>200</u>	<u>(121)</u>
INCREASE (DECREASE) IN NET POSITION	<u><u>(21,647)</u></u>	<u><u>-</u></u>	<u><u>(21,647)</u></u>

See Independent Auditors' Report and Notes to Financial Statements

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JULY 31, 2020

There were no findings or questioned costs.

JONES and LAWTON, CPAs, P.A.

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

City Council
City of Magazine Water and Sewer Department
Magazine, 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 City of Magazine Water and Sewer Department as of and for the years ended July 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 1, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
December 1, 2021