

Independent Auditor's Report and Financial Statements

CITY OF MAGNOLIA, ARKANSAS UTILITIES

December 31, 2021

CITY OF MAGNOLIA, ARKANSAS UTILITIES

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INDEPENDENT AUDITOR'S REPORT

PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

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INSTITUTE OF CPAS**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council Members
City of Magnolia, Arkansas Utilities
Magnolia, Arkansas

Opinion

We have audited the accompanying financial statements of the business-type activities of the City of Magnolia, Arkansas Utilities (the Utility), an Enterprise fund of the City of Magnolia, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Utility'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 Utility, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Utility, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Magnolia, Arkansas Utilities and do not purport to, and do not present fairly the financial position of the City of Magnolia, Arkansas as of December 31, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 Utility'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.

**City of Magnolia, Arkansas Utilities
Independent Auditor's Report (Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 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, 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 Utility'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 Utility's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

The Governmental Accounting Standards Board requires that the Schedule of the Utility's Proportionate Share of the Net Pension Liability and the Schedule of Utility Contributions be presented to supplement the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. We do not express an opinion or provide any assurance.

**City of Magnolia, Arkansas Utilities
Independent Auditor's Report (Continued)**

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City of Magnolia, Arkansas Utilities' basic financial statements. The combining and individual schedules of revenues, expenses, and changes in net position on pages 22-24 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and comparative schedules of revenues, expenses and changes in net assets were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining and comparative schedules of revenues, expenses, and changes in net position 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 August 22, 2022 on our consideration of the Utility'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 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 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 Utility's internal control over financial reporting and compliance.

Parks & Company PLC

El Dorado, Arkansas
August 22, 2022

FINANCIAL STATEMENTS

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Statement of Net Position
December 31, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and cash equivalents	\$ 1,007,764
Certificates of deposit	269,713
Accounts receivable, net	382,827
Other receivables	54,475
Inventories	<u>2,652</u>
Total Current Assets	<u>1,717,431</u>
Restricted Assets	
Cash and cash equivalents	1,014,550
Certificates of deposit	<u>651,886</u>
Total Restricted Assets	<u>1,666,436</u>
Capital Assets	
Non-depreciable	168,805
Depreciable	48,012,811
Less: Accumulated depreciation	<u>(26,999,318)</u>
Net Capital Assets	<u>21,182,298</u>
Total Assets	<u>24,566,165</u>
Deferred Outflows of Resources	
Deferred pension outflows	<u>73,185</u>
Total Deferred Outflows of Resources	<u>73,185</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 24,639,350</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Accounts payable	\$ 14,262
Accrued wages	38,243
Sales tax payable	14,243
Payable from restricted assets:	
Meter deposits	19,065
Accrued interest payable	154,768
Current portion of long-term debt	<u>787,109</u>
Total Current Liabilities	<u>1,027,690</u>
Non-Current Liabilities	
Net pension liability	603,663
Long-term debt, net of current portion	<u>11,377,616</u>
Total Non-Current Liabilities	<u>11,981,279</u>
Total Liabilities	<u>13,008,969</u>
Deferred Inflows of Resources	
Deferred pension inflows	<u>582,654</u>
Total Deferred Inflows of Resources	<u>582,654</u>
Net Position	
Net investment in capital assets	8,862,805
Restricted, expendable for debt service and refunds	1,524,040
Restricted, expendable for capital projects	142,396
Unrestricted	<u>518,486</u>
Total Net Position	<u>11,047,727</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 24,639,350</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2021

Operating Revenues	
Water sales	\$ 2,190,853
Wastewater sales	1,864,260
Grant revenue	213,476
Other income	232,066
Total Operating Revenues	<u>4,500,655</u>
Operating Expenses	
Water operations	1,360,442
Wastewater operations	961,275
Depreciation and amortization	1,099,775
Total Operating Expenses	<u>3,421,492</u>
Operating Income (Loss)	<u>1,079,163</u>
Non-operating Revenues (Expenses)	
Interest income	13,260
Interest expense	(325,540)
Amortization of bond premium	9,304
Total Non-operating Revenues (Expenses)	<u>(302,976)</u>
Change in Net Position	776,187
Net Position, Beginning of Year	<u>10,271,540</u>
Net Position, End of Year	<u><u>\$ 11,047,727</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 4,011,198
Grants	213,476
Other receipts	232,066
Cash paid for supplies and operating costs	(1,339,903)
Cash paid for employee and related costs	(1,072,950)
Net Cash Provided by (Used in) Operating Activities	<u>2,043,887</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of property, plant, and equipment	(1,985,439)
Principal payments on long-term debt	(839,822)
Interest payments on long-term debt	(301,193)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(3,126,454)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment maturities	39,814
Interest income	13,260
Net Cash Provided by (Used in) Investing Activities	<u>53,074</u>

Net Decrease in Cash and Cash Equivalents (1,029,493)

Cash and Cash equivalents, Beginning of Year 3,051,807

Cash and Cash Equivalents, End of Year \$ 2,022,314

Presented on Statement of Net Position as follows:

Current assets - Cash and cash equivalents	1,007,764
Restricted assets - Cash and cash equivalents	1,014,550
	<u><u>\$ 2,022,314</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Statement of Cash Flows
For the Year Ended December 31, 2021

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

Operating Income	\$ 1,079,163
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,099,775
Bad debts	15,334
Changes in pension-related accounts:	
Net pension liability	(806,244)
Pension related deferred outflows	163,230
Pension related deferred inflows	549,910
(Increase) decrease in current assets:	
Accounts receivable	(42,409)
Increase (decrease) in current liabilities:	
Accounts payable	(3,522)
Accrued liabilities	1,795
Meter deposit liability	<u>(13,145)</u>
Total adjustments	<u>964,724</u>
Net cash provided by (used in) operating activities	<u><u>\$2,043,887</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Magnolia, Arkansas Utilities (the "Utility") is an enterprise fund of the City of Magnolia, Arkansas that operates under the Mayor-Council form of government. The Utility provides water and sewer services to customers in the City of Magnolia.

The Utility does not have oversight responsibility for any other government unit and no other government entities are considered to be controlled by or dependent upon the Utility.

Basis of Accounting and Presentation

The Utility is accounted for as an enterprise fund (see below) and uses the accrual basis of accounting. The Utility's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Proprietary Fund Type-Enterprise Fund

Enterprise funds are used to account for (a) operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered 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 policy, management control, accountability or other purposes. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the enterprise fund's ongoing operations. The principal operating revenues of the Utility are charges to customers for water sales and wastewater services. Operating expenses for the Utility include the cost of pumping, treating, and delivering water and the treatment of wastewater for discharge, administrative services and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available, the Utility's policy is to use restricted resources first, as required, and then unrestricted resources as they are needed.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, pension expense, and allowance for doubtful accounts, among other accounts. Actual results could differ from those estimates.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the presentation of cash flows, cash and cash equivalents include all restricted and unrestricted cash on hand, demand deposit accounts, money market deposit accounts and certificates of deposit with original maturities of 3 months or less at the date of purchase.

Deposits and Investments

Cash includes amounts in demand and time deposit accounts. The Utility classifies all certificates of deposit and money market accounts insured by direct obligations of the United States government as investments on its statement of net position. Certificates of deposit are reported at cost, which approximates fair value. The Utility may occasionally invest in U.S. Governmental Obligations as permitted by state law.

Restricted Assets

The Utility has restricted assets for payment of debt services, cost of replacements made necessary by depreciation, capital improvement projects, and meter deposits. Restricted assets totaled \$1,666,436 as of December 31, 2021.

Receivables

The Utility uses the allowance methodology for estimating possible uncollectible customer accounts. At December 31, 2021, accounts receivable included billed accounts receivable of \$226,445 and unbilled accounts receivable of \$169,529. The allowance for bad debts was \$13,147.

Inventories

Inventory consists of materials and supplies used in the operation, maintenance, and construction of or improvements to capital assets. Amounts in inventory are valued at cost, which approximates fair value.

Capital Assets

Capital assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year are recorded at stated cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The Utility uses the following estimated useful lives:

Land improvements	10 – 40 years
Buildings	10 – 40 years
Equipment	5 – 40 years

Deferred Outflows / Inflows of Resources

Deferred outflows and inflows of resources are financial statement elements distinct from assets and liabilities and represent a consumption or production of net position that applies to future periods. The recognition of the outflow or inflow of resources will occur in a future period.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The Utility's policies permit employees to earn time-off benefits that may be realized in the form of a cash payment, paid time off, or paid sick leave. A liability for compensated absences and related expenses is recognized as the time-off benefits are earned by employees using regular pay rates in effect.

Long-term Obligations

Long-term obligations are reported net of any applicable premiums or discounts. Premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Debt issuance costs, including underwriter fees, are reported as period costs when incurred.

Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenditures and contributions of capital. Net position is classified in the following four components: invested in capital assets, net of related debt; restricted for debt service; restricted for capital activity; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, and improvement of those assets. Restricted for debt service and capital activity consist of assets for which constraints are placed thereon by the bond agreements. Unrestricted consists of all other net assets not included in the above categories.

Revenue Recognition

Revenues for water supply, treatment and distribution services are recognized in the period during which the services are provided.

Allocation of Administrative Expenses and Transfers

Substantially all indirect administrative expenses not directly attributable to water or sewer are allocated based on water and sewer revenues.

Income Taxes

As a municipal owned utility, the Utility is exempt from federal and state income taxes.

Retirement Benefits

The Utility participates in the Arkansas Public Employees Retirement Utility (APERS), a cost-sharing multiple-employer defined benefit plan, which provides retirement benefits to the Utility's employees. Pension items are allocated to the Utility based on contributions paid to APERS. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of APERS and additions to/deductions from APERS' fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events through August 22, 2022, which is the date the financial statements were available to be issued.

NOTE 2: CASH AND TIME DEPOSITS

The Utility's cash and time deposits consisted of demand deposit (checking) accounts, money market accounts and certificates of deposit at local financial institutions. The carrying amount of the Utility's cash and time deposits as of December 31, 2021 was \$2,943,913. The corresponding aggregated bank balance for these accounts was \$2,956,150.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of December 31, 2021, the Utility held no debt securities

Custodial Risk

Custodial risk is the risk that, in the event of failure of a depository institution, the Utility will not be able to recover deposits or collateral securities that are in the possession of an outside party. The standard FDIC insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. As of December 31, 2021, all Utility cash and time deposit accounts were insured by FDIC insurance or collateralized by bonds pledged by the custodial financial institution.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Utility's investing activities are managed under the stewardship of the Magnolia City Council. Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in: (1) direct obligations of the United States government (for which the full faith and credit of the United States government are pledged), (2) certificates of deposit at savings and loan associations or federally-insured banks when secured by acceptable collateral, (3) savings accounts at savings and loan associations and banks, to the extent fully insured, and (4) any bond, note or other indebtedness insured by the United States government or those agencies insured and guaranteed by the federal government.

The Utility can legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Utility does not purchase foreign investments.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 2: CASH AND TIME DEPOSITS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Utility's investment in a single issuer. The Utility had concentrations of credit risk of over 5% by issuer that are required to be disclosed as follows:

Issuer	Investment Type	Fair Value	% of Total Deposits
Farmers Bank & Trust	Cash and time deposits	\$ 2,857,370	97%

Fair Value Measurements

U.S. GAAP requires the Utility to disclose fair value measurements at the Statement of Net Position date. The FASB has established a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements).

As of December 31, 2021, the Utility's time deposits are valued at cost, which approximates fair value. There were no changes in the methodology used during the year ended December 31, 2021.

Interest Income

Interest income for 2021 was \$13,260 earned on various certificates of deposit and checking accounts.

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land & Leases	\$ 168,805			168,805
Construction-in-progress	-	1,434,740		1,434,740
<i>Total capital assets, not being depreciated</i>	168,805	1,434,740	-	1,603,545
<i>Capital assets, being depreciated</i>				
Buildings	4,738,218			4,738,218
Computer and office equipment	163,621			163,621
Water system	35,651,598	408,070		36,059,668
Equipment	1,194,199			1,194,199
Sewer plant	4,411,364	11,000		4,422,364
<i>Total capital assets, being depreciated</i>	46,159,000	419,070	-	46,578,070
Less accumulated depreciation:	25,899,542	1,099,775		26,999,317
Capital assets, net	\$ 20,428,263			\$21,182,298

Depreciation expense for the year ended December 31, 2021, was \$1,099,775.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 4: LONG-TERM LIABILITIES

The Utility's long-term debt and notes payable includes the following:

2016 Series Bonds

The \$2,705,000 2016 Series Bonds are obligations of the Utility, payable from revenues of the water and wastewater Utility. Annual interest rates range from 1.375% to 3.250%. Principal payments are due annually on August 1 with the final payment scheduled in 2032. Interest payments are due semiannually on February 1 and August 1.

2019 Series Bonds

The \$7,110,000 2019 Series Bonds are obligations of the Utility, payable from revenues of the water and wastewater Utility. Annual interest rates range from 2.500% to 3.000%. Principal payments are due annually on January 1 with the final payment scheduled in 2032. Interest payments are due semiannually on January 1 and July 1.

2020 Series Bonds

The \$3,740,000 2020 Series Bonds are obligations of the Utility, payable from revenues of the water and wastewater Utility. Annual interest rates range from 1.625% to 2.000%. Principal payments are due annually on January 1 with the final payment scheduled in 2034. Interest payments are due semiannually on January 1 and July 1.

Changes in long-term debt and notes payable for the year ended December 31, 2021 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
2016 Series	\$ 2,040,000		\$ (160,000)	\$ 1,880,000	\$ 165,000
2019 Series	6,970,000		(495,000)	6,475,000	515,000
2020 Series	3,740,000		(40,000)	3,700,000	105,000
Total Bonds and Notes Payable	12,750,000	-	(695,000)	12,055,000	785,000
Accrued Compensated Absences	69,893		(48,804)	21,089	2,109
Total Long-Term Debt	<u>\$12,819,893</u>	<u>\$ -</u>	<u>\$ (743,804)</u>	12,076,089	<u>\$ 787,109</u>
				Unamortized premiums on bonds	123,485
				Unamortized discounts on bonds	(34,849)
				<u>\$ 12,164,725</u>	

Presented on the statement of net position under the following captions:

Current maturities of long-term debt payable from restricted assets	\$ 787,109
Long-term debt, net of current portion	<u>11,377,616</u>
	<u>\$ 12,164,725</u>

**CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

The sinking fund requirements as of December 31, 2021, were as follows:

2016 Series Bonds				2019 Series Bonds			
Year ending December 31,	Principal	Interest	Total	Year ending December 31,	Principal	Interest	Total
2022	165,000	55,505	220,505	2022	515,000	181,181	696,181
2023	165,000	52,288	217,288	2023	525,000	165,581	690,581
2024	170,000	47,750	217,750	2024	535,000	149,681	684,681
2025	175,000	43,075	218,075	2025	560,000	133,256	693,256
2026-2030	960,000	134,625	1,094,625	2026-2030	3,015,000	414,272	3,429,272
2031-2032	245,000	9,100	254,100	2031-2032	1,325,000	39,975	1,364,975
	<u>1,880,000</u>	<u>342,343</u>	<u>2,222,343</u>		<u>6,475,000</u>	<u>1,083,947</u>	<u>7,558,947</u>

2020 Series Bonds			
Year ending December 31,	Principal	Interest	Total
2022	105,000	70,831	175,831
2023	115,000	68,631	183,631
2024	120,000	66,281	186,281
2025	120,000	63,881	183,881
2026-2030	635,000	282,803	917,803
2031-2034	2,605,000	138,544	2,743,544
	<u>3,700,000</u>	<u>690,972</u>	<u>4,390,972</u>

All bonds are collateralized by a pledge of the Utility's revenues, the funds created under the indenture, and all monies and investments held therein. The bonds require annual sinking fund payments sufficient to redeem principal plus interest. The terms of the bond agreements impose certain restrictive covenants on the Utility. Generally, the Utility is required to establish and maintain rates to provide net revenues equal to the annual debt service requirements. Additionally, the Utility is required to maintain a revenue fund consisting of a revenue bond fund, operation and maintenance fund, and depreciation fund for each bond.

NOTE 5: METER DEPOSITS

The Utility eliminated the policy of customers paying a deposit to secure water and wastewater service during 2019. The Utility has not refunded any existing meter deposits since that time. As of December 31, 2021, the meter deposit liability totaled \$19,065.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 6: PENSION PLAN

Plan Description

The Arkansas Public Employees Retirement Utility (APERS) (The Plan) is a cost-sharing, multiple-employer, defined benefit plan under Section 401(a) of the Internal Revenue Code, with defined contribution options. The administration and control of the plan is vested in the Board of Trustees of APERS.

Benefits Provided

The Plan provides retirement, disability and death benefits. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows.

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005 but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-contributory	1.72%

Members are eligible to retire with full benefit under the following conditions:

- At age 65 with 5 years of service
- At any age with 28 years of actual service
- At age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- At age 55 with 35 years of credited service for elected or public safety officials

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level of payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005, are not required to make contributions to APERS. Members who began service on or after July 1, 2005, are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan. Required employer contributions made during the period July 1, 2020, through June 30, 2021, were \$123,184.

**CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021**

NOTE 6: PENSION PLAN (CONTINUED)

Contributions (Continued)

Employer contribution rates were 15.99% of covered payroll for the period January 1, 2021 to June 30, 2021 and also for the period July 1, 2021 to December 31, 2021.

APERS Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS Financial Report available at <http://www.apers.org/annualreports>.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

The state-wide, collective Net Pension Liability of \$768,832,303 was measured as of June 30, 2021, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. The Utility's share of the total pension liability at June 30, 2021 was \$309,579. For the year ended December 31, 2021, the Utility recognized pension expense of \$38,278.

Deferred outflows of resources and deferred inflows of resources related to pensions for the Utility are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	-	(2,168)
Changes in proportion and differences between employer contributions and share of contributions	532	(17,213)
Differences between expected and actual experience	7,085	(19,855)
Net difference between projected and actual investment earnings	-	(543,417)
Utility contributions subsequent to the measurement date	<u>65,567</u>	
Total	<u><u>73,185</u></u>	<u><u>(582,653)</u></u>

\$65,567 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2022.

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 6: PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in the financial statements as follows:

Year ending June 30,	Deferred Outflow/Inflow Amounts
2022	(143,578)
2023	(126,667)
2024	(139,881)
2025	(164,911)
2026	-
Thereafter	-
	(575,037)

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost method	Entry age normal
Amortization method	Level of percent of payroll
Remaining Amortization Period	26 years
Asset Valuation Method	4-year smoothed market; 25% Corridor (market value for still paying old plan)
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25%-9.85% including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females
Average Service Life for all Members	3.9676

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 6: PUBLIC EMPLOYEES RETIREMENT UTILITIES (CONTINUED)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Utility's target asset allocation as of June 30, 2021, are summarized in the table as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	100%	
Total Real Rate of Return		4.93%
Plus: Price Inflation - Actuary Assumption		2.50%
Net Expected Return		7.43%

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the Net Pension Liability using the discount rate of 7.15%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

	Sensitivity of Discount Rate		
	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Utility's proportionate share of the net pension liability	926,074	309,580	(199,557)

CITY OF MAGNOLIA, ARKANSAS UTILITIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2021

NOTE 7: RESTRICTED NET POSITION

At December 31, 2021, the Utility had restricted net assets \$1,666,436. Of this amount, \$1,524,040 was restricted for debt service and meter deposits and \$142,396 was restricted for capital projects.

NOTE 8: INSURANCE

The City of Magnolia utilizes the State of Arkansas Workers' Compensation Plan. This coverage is extended to employees of the Utility. Under this plan, the City is billed by the state for the City's claims, including any claims related to Utility employees.

Employees are covered under the state blanket bond coverage through Arkansas Fidelity Bond Trust. The bond provides \$250,000 Employee Bond Coverage with a \$1,000 deductible. This bond covers all City employees in cash handling positions including those at the Utility.

NOTE 9: RISK MANAGEMENT

The Utility is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption.

NOTE 10: RELATED PARTY TRANSACTIONS

Magnolia Utilities paid the City of Magnolia \$30,000 for rent of office space in City Hall. There is no written lease agreement with the City. Magnolia Utilities also paid 57% of the City Treasurer's salary and 12.8% of the Deputy City Clerk's salary. The total of these salaries was \$39,200.

NOTE 11: UNCERTAINTIES AND CONTINGENCIES

The Utility's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) and its variants which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Utility's financial position, operations and cash flows. Possible effects may include, but are not limited to, disruption to the Utility's operations and revenue, absenteeism in the Utility's labor workforce, unavailability of products and supplies used in operations, and a decline in value of assets held by the Utility.

Management of the Utility continues to carefully monitor the situation and evaluate its options on an ongoing basis. No adjustments have been made to these financials statements as a result of this uncertainty.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MAGNOLIA ARKANSAS UTILITIES

Schedule of the Utility's Proportionate Share of the Net Pension Liability - Last Ten Fiscal Years*

For the Plan Years Ended June 30, 2016 through June 30, 2021

	As of June 30, 2021	As of June 30, 2020	As of June 30, 2019	As of June 30, 2018	As of June 30, 2017	As of June 30, 2016
Utility's proportion of the net pension liability (percentage)	0.0403%	0.0448%	0.0500%	0.0505%	0.0515%	0.0491%
Utility's proportionate share of the net pension liability (dollars)	309,580	1,282,890	1,205,785	1,113,558	1,330,022	1,174,274
Utility's covered-employee payroll	802,897	847,598	876,769	905,458	920,161	895,019
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	38.56%	151.36%	137.53%	122.98%	144.54%	131.20%
Plan fiduciary net position as a percentage of the total pension liability	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%

* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the utility will only present the information available.

Information in this schedule has been determined as of the measurement date (June 30 of each year) of the Utility's net pension liability.

CITY OF MAGNOLIA ARKANSAS UTILITIES

Schedule of the Utility's Contributions to Pension Plan - Last Ten Years

For the Plan Years Ended June 30, 2014 through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014*
Required contributions	128,378	128,659	134,321	133,555	133,423	129,778	124,126	126,190
Contributions in relation to the required contribution	<u>128,378</u>	<u>128,659</u>	<u>134,321</u>	<u>133,555</u>	<u>133,423</u>	<u>129,778</u>	<u>124,126</u>	<u>126,190</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
System's covered employee payroll	802,897	847,598	876,769	905,458	920,161	895,019	840,963	848,049
Contributions as a percentage of covered-employee payroll	15.99%	15.18%	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

* The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB 68, the utility will only present the information available.

SUPPLEMENTARY INFORMATION

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2021

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Operating Revenues			
Water sales	\$ 2,190,853	-	\$ 2,190,853
Wastewater sales	-	1,864,260	1,864,260
Grant Revenue	213,476		213,476
Other income	230,120	1,946	232,066
Total Operating Revenues	<u>2,634,449</u>	<u>1,866,206</u>	<u>4,500,655</u>
Operating Expenses			
Payroll	483,880	426,258	910,137
Payroll taxes	49,670	23,341	73,010
Utilities	162,789	128,810	291,599
General operating costs and supplies	52,371	21,807	74,178
Distribution materials and supplies	65,031	-	65,031
Maintenance and treatment plant supplies	163,465	64,923	228,388
Repairs and maintenance	95,277	118,281	213,558
Fuel, oil, and tires	27,881	27,798	55,679
Insurance	81,150	55,540	136,689
Retirement expense	20,352	17,926	38,278
Water source protection cost	61,069	-	61,069
Legal and accounting fees	11,000	11,000	22,000
Bad debts (net of recoveries)	15,334	-	15,334
Postage	12,014	12,014	24,027
Telephone	12,353	12,353	24,705
Office expense	46,809	41,227	88,035
Depreciation and amortization	691,095	408,680	1,099,775
Total Operating Expenses	<u>2,051,537</u>	<u>1,369,955</u>	<u>3,421,492</u>
Operating Income (Loss)	<u>582,912</u>	<u>496,251</u>	<u>1,079,163</u>
Non-operating Revenues (Expenses)			
Interest income	6,630	6,630	13,260
Interest expense	(185,753)	(139,787)	(325,540)
Amortization of bond premium	9,304		9,304
Total Non-operating Revenues (Expenses)	<u>(169,819)</u>	<u>(133,157)</u>	<u>(302,976)</u>
Change in Net Position	413,093	363,094	776,187

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Water
For the Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Water sales	\$ 2,190,853	2,248,427
Grant income	213,476	
Other income	230,120	167,304
Total Operating Revenues	2,634,449	2,415,731
Operating Expenses		
Payroll	483,880	467,814
Payroll taxes	49,670	41,986
Utilities	162,789	179,271
General operating supplies	52,371	47,637
Distribution materials and supplies	65,031	39,409
Treatment plant supplies	163,465	98,647
Repairs and maintenance	95,277	223,266
Fuel, oil, and tires	27,881	21,362
Insurance	81,150	71,478
Retirement expense	20,352	162,045
Water source protection cost	61,069	69,166
Legal and accounting fees	11,000	13,135
Bad debts (net of recoveries)	15,334	17,758
Postage	12,014	9,541
Telephone	12,353	12,076
Office expense	46,809	41,446
Depreciation and amortization	691,095	618,380
Total Operating Expenses	2,051,537	2,134,417
Operating Income (Loss)	582,912	281,314
Non-operating Revenues (Expenses)		
Interest income	6,630	8,972
Interest expense	(185,753)	(167,719)
Loss on sale / disposal of equipment	-	(24,368)
Bond issuance costs	-	(86,459)
Loss on bond refinancement	-	(41,128)
Amortization of bond premium	9,304	
ADFA fees	-	(17,555)
Total Non-operating Revenues (Expenses)	(169,819)	(328,257)
Change in Net Position	413,093	(46,943)

CITY OF MAGNOLIA, ARKANSAS UTILITIES
Comparative Schedule of Revenues, Expenses and Changes in Net Position - Sewer
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Wastewater sales	\$ 1,864,260	1,813,715
Other income	1,946	-
Total Operating Revenues	<u>1,866,206</u>	<u>1,813,715</u>
Operating Expenses		
Payroll	426,258	477,940
Payroll taxes	23,341	22,448
Utilities	128,810	126,696
General operating supplies	21,807	17,639
Distribution materials and supplies	-	-
Treatment plant supplies	64,923	55,435
Repairs and maintenance	118,281	60,097
Fuel, oil, and tires	27,798	17,022
Insurance	55,540	48,753
Retirement expense	17,926	70,260
Water source protection cost	-	-
Legal and accounting fees	11,000	13,135
Bad debts (net of recoveries)	-	-
Postage	12,014	9,541
Telephone	12,353	12,076
Office expense	41,227	39,551
Depreciation and amortization	408,680	505,830
Total Operating Expenses	<u>1,369,955</u>	<u>1,476,423</u>
Operating Income (Loss)	<u>496,251</u>	<u>337,292</u>
Non-operating Revenues (Expenses)		
Interest income	6,630	8,109
Interest expense	(139,787)	(143,318)
Loss on sale / disposal of equipment	-	(32,096)
Loss on bond refinancement	-	(47,573)
Total Non-operating Revenues (Expenses)	<u>(133,157)</u>	<u>(214,878)</u>
Change in Net Position	363,094	122,414

GOVERNMENT AUDITING STANDARDS REPORT

PARKS & COMPANY PLC

A PROFESSIONAL LIMITED COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER AMERICAN
INSTITUTE OF CPAS

441 N. WASHINGTON AVE.
EL DORADO, ARKANSAS 71730
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MEMBER ARKANSAS
SOCIETY OF CPAS

INDEPENDENT AUDITOR'S 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

The Honorable Mayor and City Council Members
City of Magnolia, 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 and the related notes of the business-type activities of the City of Magnolia, Arkansas Utilities (the "Utility") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated August 22, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the 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 Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified deficiency 2021-001 in internal control, described in the accompanying schedule of findings and responses, which we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility'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*.

City of Magnolia Utilities
Report on Internal Control over Financial Reporting and Compliance (Continued)

Magnolia Water Utilities Response to Findings

Magnolia Water Utilities' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Magnolia Water Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.

Parks & Company PLC

August 22, 2022

**CITY OF MAGNOLIA, ARKANSAS UTILITIES
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2021**

Findings – Financial Statement Audits

2021-001 Segregation of duties

Condition: The City of Magnolia, Arkansas Utilities did not segregate financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to sufficiently reduce the risks of fraud or error.

Criteria: Internal controls should be in place to provide adequate segregation of duties with regard to financial accounting duties.

Cause: The Utility has limited financial resources which prevent it from fully segregating financial accounting duties

Effect: Without proper segregation of duties there is the potential for material misstatement of the financial statements or material misappropriation of assets due to error or fraud occurring and not being prevented or detected in a timely manner.

Recommendation: The Utility should evaluate its internal controls and segregate financial duties to the extent possible with current staffing levels and consider additional oversight where segregation of duties is not possible. The Utility should also ensure that the Mayor has to sign off on all system access changes. The City Council or a designated committee should review the adjustments posted each month to customer accounts and document their review.

Views of Responsible Officials: The City Council acknowledges the lack of segregation of duties in the water and sewer department. It is the goal of the Council to implement the recommendations to the best of their ability and to serve as a mitigating control due to the small staff size.