

CITY OF MAGNOLIA, ARKANSAS UTILITIES

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MAGNOLIA, ARKANSAS

DECEMBER 31, 2023

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
MAGNOLIA, ARKANSAS

AUDIT REPORT - TABLE OF CONTENTS  
DECEMBER 31, 2023

	<u>PAGE NO.</u>
Independent Auditors' Report	1 - 3
Statement of Net Position - December 31, 2023	4 - 5
Statement of Revenues, Expenses and Changes in Net Position - For Year Ended December 31, 2023	6
Statement of Cash Flows - All Proprietary Fund Types For Year Ended December 31, 2023	7 - 8
Notes to Financial Statements	9 - 17
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 - 19
Schedule of Findings and Questioned Costs	20 - 21
SUPPLEMENTARY INFORMATION	
SCHEDULE I    Schedule of Operating Expenses - For Year Ended December 31, 2023	22
SCHEDULE II    Combining Schedule of Revenues, Expenses and Changes in Net Position - For Year Ended December 31, 2023	23
SCHEDULE III    Budgetary Comparison Schedule - For Year Ended December 31, 2023	24
SCHEDULE IV    Required Supplemental Information for Cost-Sharing Plans	25

INDEPENDENT AUDITORS' REPORT

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

**Report on the Financial Statements**

***Opinions***

We have audited the accompanying financial statements of the City of Magnolia, Arkansas Utilities (the Utility), a component unit of the City of Magnolia, Arkansas, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Magnolia, Arkansas Utilities' 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, 2023, 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 Opinions***

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. 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 clear basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

### **Emphasis of Matter**

As discussed in Note 1, the financial statements referred to above 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, 2023, 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.

### ***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 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

## INDEPENDENT AUDITORS' REPORT (Continued)

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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (page 24), and information for cost-sharing plans (page 25) 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the City of Magnolia, Arkansas Utilities' basic financial statements. The Schedule of Operating Expenses and Combining Schedule of Revenues, Expenses and Changes in Net Position on pages 22-23 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 September 18, 2024, 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 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 Magnolia, Arkansas Utilities' 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 Magnolia, Arkansas Utilities' internal control over financial reporting and compliance.

*Turner, Rodgers, Manning & Plyler, PLLC*

Arkadelphia, Arkansas

September 18, 2024

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
STATEMENT OF NET POSITION  
DECEMBER 31, 2023

Page 4

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 360,617
Certificates of Deposit	312,835
Accounts Receivable (net of allowance of \$36,660)	236,882
Unbilled Revenue	150,744
TOTAL CURRENT ASSETS	<u>1,061,078</u>

RESTRICTED ASSETS:

Cash and Cash Equivalents - Meter Deposits	10,222
Cash and Cash Equivalents - Debt Service	863,763
Certificates of Deposit - Debt Service	816,619
TOTAL RESTRICTED ASSETS	<u>1,690,604</u>

CAPITAL ASSETS:

Land and Leases	168,805
Buildings and Improvements	4,751,694
Vehicles and Equipment	1,312,534
Water System	25,732,245
Sewer System	18,883,672
Construction in Progress	174,078
Less: Accumulated Depreciation	<u>(29,245,721)</u>
TOTAL CAPITAL ASSETS	<u>21,777,307</u>

TOTAL ASSETS	<u>24,528,989</u>
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DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows of Resources Related to Pension	456,915
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$24,985,904</u></u>

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
STATEMENT OF NET POSITION  
DECEMBER 31, 2023

Page 5

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

CURRENT LIABILITIES:

Accounts Payable	\$ 45,978
Accrued Wages and Compensated Absences	24,670
Sales Tax Payable	13,067
Payable from Restricted Assets:	
Meter Deposits	10,222
Accrued Interest Payable	135,149
Current Portion of Long-Term Debt	825,000
TOTAL CURRENT LIABILITIES	<u>1,054,086</u>

LONG-TERM LIABILITIES:

Long-Term Debt, net of current portion	9,710,028
Due to General Fund	1,299,603
Net Pension Liability	1,477,083
TOTAL LONG-TERM LIABILITIES	<u>12,486,714</u>

TOTAL LIABILITIES	<u>13,540,800</u>
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DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows of Resources Related to Pension	28,062
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>13,568,862</u>

NET POSITION:

Invested in Capital Assets, Net of Related Debt	11,242,279
Restricted	720,233
Unrestricted	(545,470)
TOTAL NET POSITION	<u>11,417,042</u>

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$24,985,904</u></u>
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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 YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUE:	
Water Sales	\$ 2,044,898
Wastewater Sales	1,846,384
Other Income	304,996
TOTAL OPERATING REVENUE	<u>4,196,278</u>
OPERATING EXPENSES (Schedule II)	3,948,433
OPERATING INCOME	<u>247,845</u>
NON-OPERATING INCOME (EXPENSE):	
Amortization of bond premium, net	9,304
Interest Income	42,129
Interest Expense	<u>(277,217)</u>
TOTAL NON-OPERATING INCOME (EXPENSE)	<u>(225,784)</u>
NET INCOME	<u>22,061</u>
NET POSITION AT BEGINNING OF YEAR	11,394,981
NET POSITION AT END OF YEAR	<u><u>\$ 11,417,042</u></u>

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



CITY OF MAGNOLIA, ARKANSAS UTILITIES  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR YEAR ENDED DECEMBER 31, 2023

Page 7

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Customers	\$ 4,199,719
Other Receipts	67,098
Cash Paid for Supplies and Operating Costs	(1,614,145)
Cash Paid for Employee and Related Costs	(1,304,101)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,348,571</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
None	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Property, Plant, and Equipment	(610,617)
Principal Payments on Long-Term Debt	(805,000)
Interest Payments on Long-Term Debt	(286,772)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,702,389)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest Received	42,129
Purchases of Certificates of Deposit	(204,760)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(162,631)</u>
NET INCREASE IN CASH AND RESTRICTED CASH	<u>(516,449)</u>
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	1,751,051
CASH AND RESTRICTED CASH - END OF YEAR	<u><u>\$ 1,234,602</u></u>

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
FOR YEAR ENDED DECEMBER 31, 2023

Page 8

Reconciliation of operating income to net cash provided by operating activities:

OPERATING INCOME	<u>\$ 247,845</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Bad Debts	32,672
Depreciation	1,205,497
Pension Related Adjustment	14,856
Change in Assets and Liabilities:	
Accounts Receivable and Unbilled Revenue	19,001
Inventory	2,652
Accounts Payable	(62,433)
Accrued Wages and Compensated Absences	2,819
Sales Tax Payable	(1,913)
Customer Overpayments	<u>(112,425)</u>
TOTAL ADJUSTMENTS	1,100,726
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,348,571</u></u>
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:	
Amortization of Bond Premium	<u><u>\$ 9,304</u></u>

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

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

Page 9

Note 1. Summary of Significant Accounting Policies:

City of Magnolia, Arkansas Utilities (the "Utility") is an Enterprise Fund of the City of Magnolia, Arkansas and is governed by the Mayor and City Council of the City of Magnolia, Arkansas. The accompanying financial statements and other information reflect the City of Magnolia, Arkansas Utilities fund only and do not include other funds of the City of Magnolia, Arkansas.

The financial statements are prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. The Utility applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The Utility applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The Utility utilizes the allowance method of accounting for uncollectible accounts receivable. The Utility reviews their customer accounts on a periodic basis and records a reserve for specific amounts that management determines may not be collected. In addition, the Utility has established a general reserve for potentially uncollectible accounts based on historical bad debts. Amounts are written off at the point when collection attempts have been exhausted, which is usually 180 days after the account is past due. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Utilities' processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Utility. Accounts receivable are recorded net of estimated uncollectible amounts.

Debt issuance expenses and discounts are being amortized over the terms of the respective liabilities using the effective interest method.

For purposes of the Statement of Cash Flows, the Utility considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The Utility restricts certain assets for the payment of debt service, capital improvements, and repairs and maintenance of the Utility.

The Utility capitalizes all expenditures in excess of \$2,000 and with a useful life of more than one year. Capital assets are stated at cost and depreciation is calculated using the straight-line method over the estimated useful lives of the related assets ranging from five to forty years. Donated fixed assets are valued at their estimated fair market value on the date donated.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

Page 10

Note 1. Summary of Significant Accounting Policies: (Continued)

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets.

Budgeted revenues and expenses are prepared using the economic resources measurement focus and the accrual basis of accounting.

Management has evaluated subsequent events through September 18, 2024, the date the financial statements were available for issuance.

Note 2. Unbilled Revenue:

Unbilled water and sewer revenue of \$330,080 was computed for usage from the last meter reading date of 2023 until the end of December. This amount is computed by allocating water used based on the last meter reading date.

Note 3. Public Fund Deposits and Investments:

State law generally requires that City funds be deposited in federally insured banks located within the State of Arkansas. The deposits may be in the form of checking accounts, savings accounts, and/or time deposits.

Public funds may also be invested in direct obligations of the United States of America and obligations on which the principal and interest are fully guaranteed by the United States of America. All cash funds of the Utility, except bonds funds held by the trustees of prior bond issues, are deposited in accounts in the name of City of Magnolia, Arkansas Utilities in financial institutions permitted by law.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. City of Magnolia, Arkansas Utilities does not have a policy for custodial credit risk. At December 31, 2023, the Utilities' deposits with financial institutions were fully insured or collateralized and totaled \$2,364,056.

Federal Deposit Insurance Corporation coverage allows for \$250,000 of coverage on all accounts deposited within each financial institution participating in the FDIC program. We were unable to determine the amount of FDIC coverage for City of Magnolia, Arkansas Utilities' accounts and investments. FDIC coverage is provided on an entity level to be shared jointly by all City of Magnolia, Arkansas Utilities accounts and investments at a financial institution.

Investment Interest Rate Risk: City of Magnolia, Arkansas Utilities does not have an investment interest rate risk.

Investment Credit Risk: City of Magnolia, Arkansas Utilities does not have a formal investment policy. All investments are demand deposit accounts with banks authorized by

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

Note 3. Public Fund Deposit and Investments (Continued):

state law to receive deposits of public funds and with which the Utility has a collateral agreement.

Foreign Currency Risk: City of Magnolia, Arkansas Utilities has no exposure to foreign currency risk.

Note 4. Property, Plant and Equipment:

Property, Plant and Equipment activity consists of the following in 2023:

	12/31/2022	Increases	Decreases	Transfers	12/31/2023
Land and Leases	\$ 168,805	\$ -	\$ -	\$ -	\$ 168,805
Buildings and Improvements	4,751,694	-	-	-	4,751,694
Vehicles and Equipment	1,303,364	51,216	(42,046)	-	1,312,534
Water System	24,827,709	215,500	-	689,036	25,732,245
Sewer System	18,713,849	169,823	-	-	18,883,672
Construction in Progress	689,036	174,078	-	(689,036)	174,078
	<u>50,454,457</u>	<u>610,617</u>	<u>(42,046)</u>	<u>-</u>	<u>51,023,028</u>
Less Accumulated Depreciation	(28,082,270)	(1,205,497)	42,046	-	(29,245,721)
NET	<u>\$ 22,372,187</u>	<u>\$ (594,880)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,777,307</u>

Note 5. Long-Term Debt:

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

2016 Series Bond

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 Bond

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.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

Note 5. Long-Term Debt: (continued)

Long-Term Debt as of December 31, 2023, consists of the following:

	12/31/2023
City of Magnolia, Arkansas Water and Sewer Refunding and Improvement Revenue Bonds, Series 2016; original amount \$2,705,000; interest rate ranging from 1.375% to 3.25%; interest payments due semi-annually on February 1st and August 1st; principal payments due annually on August 1st; Maturing in 2032.	\$ 1,550,000
City of Magnolia, Arkansas Water and Sewer Refunding and Improvement Revenue Bonds, Series 2019; original amount \$7,110,000; interest rate ranging from 2.50% to 3.00%; interest payments due semi-annually on January 1st and July 1st; principal payments due annually on January 1st; Maturing in 2032.	5,435,000
City of Magnolia, Arkansas Water and Sewer Refunding and Improvement Revenue Bonds, Series 2020; original amount \$3,740,000; interest rate ranging from 1.625% to 2.00%; interest payments due semi-annually on January 1st and July 1st; principal payments due annually on January 1st; Maturing in 2034.	3,480,000
	10,465,000
Unamortized premium	70,028
	10,535,028
Less portion considered current	(825,000)
Total long-term debt	\$ 9,710,028

Aggregate maturities of debt as of December 31, 2023 are as follows:

	Principal	Interest	Total
2024	\$ 825,000	\$ 263,722	\$ 1,088,722
2025	855,000	240,213	1,095,213
2026	875,000	216,000	1,091,000
2027	895,000	191,225	1,086,225
2028	920,000	166,387	1,086,387
Thereafter	6,095,000	445,706	6,540,706
Total	\$ 10,465,000	\$ 1,523,253	\$ 11,988,253

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.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

Page 13

Note 6. Meter Deposits:

The Utility eliminated the policy of customers paying a deposit to secure water and wastewater service during 2019. As of December 31, 2023, the Utility had not yet refunded all meter deposits. The meter deposit liability as of December 31, 2023, totaled \$10,222.

Note 7. 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 the 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 8. 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 9. Related Party Transactions:

The Utility paid the City of Magnolia \$30,000 for rent of office space in City Hall. There is no written lease agreement with the City.

Note 10. Misappropriated Funds:

In October 2023, City of Magnolia officials discovered improperly voided receipts and improper adjustments to a customer account. Arkansas Legislative Audit conducted review of selected records and released their report with findings in August 2024. Based on the ALA staff's review of voided receipts and account adjustments, they found that receipts totaling \$15,108 were improperly voided, and improper adjustments were posted to customer accounts. These improper transactions allowed funds to be misappropriated and the misappropriation to not be detected in a timely manner.

Note 11. Arkansas Public Employees Retirement System:

**Implementation of GASB 68 – Restatement of Prior Year Ending Net Position**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which became effective for fiscal years beginning after June 15, 2014. The Statement establishes standards for public pension plan obligations for participating employers.

Under the new statement, a cost-sharing employer whose employees receive pensions through a trust will report in the financial statements a net pension liability, deferred outflows or inflows of resources related to pensions, and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. A net pension liability can be volatile due to changes in actuarial estimates and the actual investment return.

**Plan Description**

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (The Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State, and the Director of the Department of Finance and Administration.

**Plan Description** (Continued)

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for the APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Funding Policy: The Utility contributes an actuarially determined amount to the plan, which was 15.32% of annual covered payroll for the year ended 6/30/23. The rate remained unchanged for the fiscal year beginning 7/1/23. Contributions made by the Utility were \$148,615 for the year ended December 31, 2023, respectively.

**Benefits Provided**

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS 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 07/01/2005	2.07%
Contributory, on or after 07/01/2005, but prior to 07/01/2007	2.03%
Contributory on or after 07/01/2007	2.00%
Non-Contributory	1.72%



Note 11. Arkansas Public Employees Retirement System: (Continued)

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

- at age 65 with 5 years of service,
- at any age with 28 years 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 adjusting 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 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 (A.C.A. 24-2-703)(c)(3). Employers contributed 15.32% of compensation for the fiscal year ended June 30, 2023. The contribution rate was unchanged for the fiscal year beginning July 1, 2023.

**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 collective Net Pension Liability was measured as of June 30, 2023, 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.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

Note 11. Arkansas Public Employees Retirement System: (Continued)

**Actuarial Assumptions**

The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount rate	7.15%
Wage inflation rate	3.25%
Salary Increases	3.25 – 9.85%
Investment Rate of Return	7.15% (net of investment and administrative expenses)

**Actuarial Assumptions** (Continued)

Mortality Table	RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017
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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate rates 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, 2023 are summarized in the table below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
Total	100%	

**Discount Rate**

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2023

Note 11. Arkansas Public Employees Retirement System: (Continued)

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.

**Discount Rate** (Continued)

At December 31, 2023, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

Deferred Outflows of Resources:	
Differences between expected and actual experience	\$ 83,378
Changes in proportion and differences between employer contributions and proportionate share of contribution	45,526
Changes in assumptions	69,441
Utility contributions subsequent to measurement date	74,727
Net difference between projected and actual earnings on pension plan investments	183,843
Deferred Inflows of Resources:	
Differences between expected and actual experience	(8,110)
Changes in proportion and differences between employer contributions and proportionate share of contribution	(19,936)
Changes in assumptions	-
Utility contributions subsequent to measurement date	-
Net difference between projected and actual earnings on pension plan investments	-
Totals	\$ 428,869

\$74,727 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, 2024.

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

2024	2025	2026	2027	2028	Thereafter	Total
\$ 73,809	\$ 73,809	\$ 73,809	\$ 73,808	\$ 58,907	\$ -	\$ 354,142

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*

To the City Council  
City of Magnolia, Arkansas  
City of Magnolia, Arkansas Utilities

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 Magnolia, Arkansas Utilities as of and for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2024.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Magnolia, Arkansas Utilities' 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 City of Magnolia, Arkansas Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Magnolia, Arkansas Utilities' 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items (2023-01 through 2023-02).

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Magnolia, Arkansas Utilities' financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2023-01 through 2023-02.

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## **City of Magnolia, Arkansas Utilities Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Magnolia, Arkansas Utilities' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City of Magnolia, Arkansas Utilities' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### **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 an entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Turner, Rodgers, Manning & Plyler, PLLC*

Arkadelphia, Arkansas  
September 18, 2024

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2023

Page 20

**Summary of Auditors' Results**

The auditor's report expresses an unqualified opinion on the financial statements of the City of Magnolia, Arkansas Utilities ("the Utility").

**Findings – Financial Statement Audit**

2023-01      Criteria or Specific Requirement: Management is responsible for ensuring that adequate fiscal oversight is provided.

Condition: Adequate fiscal oversight was not provided during 2023. Voided receipts and account adjustments were not always properly documented and did not require approval by another employee or supervisor. Voided receipt information was only retained for two months in the Utility's computer system.

Cause: Procedures were not in place to ensure that adequate fiscal oversight was being provided and that proper controls were in place regarding accounting for voided receipts and adjustments to customer accounts.

Effect: Receipts totaling \$15,108 were improperly voided and improper adjustments were posted to customer accounts.

Recommendation: Management should review all internal controls, ensure that proper controls are established where lacking, monitor controls to ensure they are being properly followed, and exercise proper fiscal oversight on an on-going basis. Voided receipts and adjustments to customer accounts should be properly documented and approved. Controls should be established to ensure all relevant data is retained for a proper time period.

View of Responsible Officials and Planned Corrective Action: Changes have been made to the internal control processes regarding receiving payments, any voiding of payments and any adjustments to customer accounts. The office of the Treasurer is now reconciling the bank statements monthly to ensure that all money is deposited in the Utility's accounts and the deposits agree with the daily reports. Adjustments to customer accounts now require approval of the supervisor of the employee making the adjustment. Duplicate receipt paper is used and all voided receipts are approved by a supervisor (indicated by initialing the void on the duplicate receipt paper).

2023-02      Criteria or Specific Requirement: Internal controls should be in place to provide adequate segregation of duties with regard to financial accounting duties.

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

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

Effect: Without proper segregation of duties there is potential for 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 Mayor, City Council or a designated committee should review the adjustments posted to customer accounts and document their review monthly.

View of Responsible Officials and Planned Corrective Action: The Mayor and City Council have made changes to the internal controls of the water and sewer department. They have segregated duties to the extent possible given the current staffing levels. They are attempting to provide additional fiscal oversight to mitigate the risk associated with the lack of segregation of duties.

#### **Findings and Questioned Costs – Major Federal Award Programs Audit**

N/A

SUPPLEMENTARY INFORMATION



CITY OF MAGNOLIA, ARKANSAS UTILITIES  
SCHEDULE OF OPERATING EXPENSES  
DECEMBER 31, 2023

SCHEDULE I  
Page 22

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING EXPENSES:			
Salaries/Wages/Contract Labor	\$ 607,494	\$ 395,800	\$ 1,003,294
Payroll Taxes	50,710	24,553	75,263
Employee Benefits	170,304	72,915	243,219
Bad Debts	32,672	-	32,672
Fuel, Oil and Tires	30,022	12,724	42,746
Materials and Supplies	300,135	39,204	339,339
Utilities and Telephone	297,261	176,367	473,628
Repairs and Maintenance	95,432	132,363	227,795
Water Source Protection Cost	50,000	-	50,000
Depreciation	763,182	442,315	1,205,497
Legal and Professional	10,500	10,500	21,000
Insurance	16,443	17,722	34,165
Rent	15,000	15,000	30,000
Office Expense	37,401	16,386	53,787
Other Operating Expenses	73,012	43,016	116,028
<b>TOTAL OPERATING EXPENSES</b>	<b><u><u>\$ 2,549,568</u></u></b>	<b><u><u>\$ 1,398,865</u></u></b>	<b><u><u>\$ 3,948,433</u></u></b>

See Independent Auditors' Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 DECEMBER 31, 2023

SCHEDULE II  
 Page 23

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Water Sales	\$ 2,044,898	\$ -	\$ 2,044,898
Wastewater Sales	-	1,846,384	1,846,384
Other Income	301,721	3,275	304,996
<b>TOTAL OPERATING REVENUES</b>	<u>2,346,619</u>	<u>1,849,659</u>	<u>4,196,278</u>
<b>OPERATING EXPENSES:</b>			
Salaries/Wages/Contract Labor	607,494	395,800	1,003,294
Payroll Taxes	50,710	24,553	75,263
Employee Benefits	170,304	72,915	243,219
Bad Debts	32,672	-	32,672
Fuel, Oil and Tires	30,022	12,724	42,746
Materials and Supplies	300,135	39,204	339,339
Utilities and Telephone	297,261	176,367	473,628
Repairs and Maintenance	95,432	132,363	227,795
Water Source Protection Cost	50,000	-	50,000
Depreciation	763,182	442,315	1,205,497
Legal and Professional	10,500	10,500	21,000
Insurance	16,443	17,722	34,165
Rent	15,000	15,000	30,000
Office Expense	37,401	16,386	53,787
Other Operating Expenses	73,012	43,016	116,028
<b>TOTAL OPERATING EXPENSES</b>	<u>2,549,568</u>	<u>1,398,865</u>	<u>3,948,433</u>
<b>OPERATING INCOME</b>	<u>(202,949)</u>	<u>450,794</u>	<u>247,845</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Income	21,065	21,064	42,129
Interest Expense	(161,221)	(115,996)	(277,217)
Amortization of bond premium, net	7,291	2,013	9,304
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(132,865)</u>	<u>(92,919)</u>	<u>(225,784)</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (335,814)</u>	<u>\$ 357,875</u>	<u>\$ 22,061</u>

See Independent Auditors' Report.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 BUDGETARY COMPARISON SCHEDULE  
 FOR YEAR ENDED DECEMBER 31, 2023

SCHEDULE III  
 Page 24

	Budget	Actual	Variance
<b>OPERATING REVENUES:</b>			
Water Sales	\$ 2,211,000	\$ 2,044,898	\$ (166,102)
Wastewater Sales	1,809,000	1,846,384	37,384
Other Income	260,000	304,996	44,996
<b>TOTAL OPERATING REVENUES</b>	<b>4,280,000</b>	<b>4,196,278</b>	<b>(83,722)</b>
<b>OPERATING EXPENSES:</b>			
Salaries/Wages/Contract Labor	1,049,708	1,003,294	46,414
Payroll Taxes	80,303	75,263	5,040
Employee Benefits	274,398	243,219	31,179
Bad Debts	40,000	32,672	7,328
Fuel, Oil and Tires	74,500	42,746	31,754
Materials and Supplies	284,000	339,339	(55,339)
Utilities and Telephone	366,800	473,628	(106,828)
Repairs and Maintenance	395,000	227,795	167,205
Water Source Protection Cost	50,000	50,000	-
Depreciation	32,000 ^	1,205,497	(1,173,497)
Legal and Professional	26,000	21,000	5,000
Insurance	27,299	34,165	(6,866)
Rent	30,000	30,000	-
Office Expense	53,000	53,787	(787)
Other Operating Expenses	100,403	116,028	(15,625)
<b>TOTAL OPERATING EXPENSES</b>	<b>2,883,411</b>	<b>3,948,433</b>	<b>(1,065,022)</b>
<b>OPERATING INCOME</b>	<b>1,396,589</b>	<b>247,845</b>	<b>(1,148,744)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Interest Income	15,000	42,129	27,129
Interest Expense	(1,091,500) *	(277,217)	814,283
Amortization of bond premium, net	-	9,304	9,304
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(1,076,500)</b>	<b>(225,784)</b>	<b>850,716</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 320,089</b>	<b>\$ 22,061</b>	<b>\$ (298,028)</b>

See Independent Auditors' Report.

\* Budgeted amount includes total principal, interest, and service fee payments.

^ Includes amounts budgeted for capital purchases.

CITY OF MAGNOLIA, ARKANSAS UTILITIES  
 REQUIRED SUPPLEMENTAL INFORMATION  
 FOR COST-SHARING PLANS  
 FOR THE YEAR ENDED DECEMBER 31, 2023

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

	2023	2022	2021	2020	2019	2018	2017	2016
System's proportion of the net pension liability (asset) per APERS	0.0507%	0.0382%	0.0403%	0.0448%	0.0500%	0.0505%	0.0515%	0.0491%
System's proportionate share of the net pension liability - per APERS	\$ 1,477,083	\$ 1,029,093	\$ 603,663	\$ 1,282,890	\$ 1,205,785	\$ 1,113,558	\$ 1,330,022	\$ 1,174,274
System's covered-employee payroll	\$ 970,072	\$ 843,714	\$ 837,977	\$ 839,811	\$ 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	152.27%	121.97%	72.04%	152.76%	137.53%	122.98%	144.54%	131.20%
Plan fiduciary net position as a percentage of the total pension liability	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%

Schedule of Required Contributions Last Fiscal Year

Contractually required contribution	\$ 148,615	\$ 129,257	\$ 128,378	\$ 128,659	\$ 134,321	\$ 133,555	\$ 133,423	\$ 129,778
Contributions in relation to the contractually required contribution	<u>(148,615)</u>	<u>(129,257)</u>	<u>(128,378)</u>	<u>(128,659)</u>	<u>(134,321)</u>	<u>(133,555)</u>	<u>(133,423)</u>	<u>(129,778)</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-
System's covered-employee payroll	\$ 970,072	\$ 843,714	\$ 837,977	\$ 839,811	\$ 876,769	\$ 905,458	\$ 920,161	\$ 895,019
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%	15.32%	14.75%	14.50%	14.50%

See Independent Auditors' Report.