

CITY OF MAGAZINE, ARKANSAS
WATER AND SEWER DEPARTMENT
JULY 31, 2023 AND 2022

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by the members of the City Council, as specified in the Agreed Upon Procedures as required under Arkansas Code Annotated § 14-234-119 – 122, solely to assist the specified parties in evaluating the City of Magazine Water and Sewer Department's compliance with the *Guidelines and Rules* specified below, as of July 31, 2023 and 2022. The City of Magazine Water and Sewer Department's management is responsible for the compliance with those requirements.

The procedures and associated findings are as follows:

1. Cash and Investments

- a. Prepared proof of cash for the year and reconcile the year-end bank statement balance to book balance for all accounts.
- b. Confirmed with depository institutions the cash on deposit and investments.
- c. Agreed the proof of cash ending balances to the book balances within 5% or \$500, whichever is greater.

We found no exceptions as a result of these procedures.

2. Receipts

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

We found no exceptions as a result of these procedures.

3. Accounts Receivable

- a. Agreed ten customer billings to the accounts receivable subledger and meter readings.
- b. Determined that five customer adjustments were properly authorized.

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

4. Disbursements

- a. Agreed the disbursements per the proof of cash for the year with the disbursements per the journal within 5% or \$500, whichever is greater. Analyzed all property, plant, and equipment disbursements.
- c. Selected all disbursements paid to employees other than payroll and ten other disbursements and determined if they were adequately documented.
- d. Reviewed maintenance expenses to determine they were properly coded and should not be capitalized.
- e. Agreed ledger payroll to payroll reports.

We found no exceptions as a result of these procedures.

5. Property, and Equipment

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

We found no exceptions as a result of these procedures.

6. Long-term Debt

- a. Scheduled long-term debt and verified changes in all balances for the year.
- b. Confirmed loans, bonds, notes and contracts payable with lender/trustee/contractor.
- c. Determined that the appropriate debt service accounts have been established and maintained.

We found no exceptions as a result of these procedures.

7. General

- a. Reviewed cash balances for adequacy to support operating and maintenance expenditures.
- b. Determined the number of customers.
- c. Determined the rate structures.
- b. Determined that any items of financial significance were approved and documented in the minutes of the governing body's meetings.

We found no exceptions as a result of these procedures.

These agreed-upon procedure engagements were conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion on the effectiveness of internal controls over compliance. Accordingly, we do not express such an opinion or conclusion. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you. The sufficiency of the procedures is solely the responsibility of the members of the Council. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose.

This report is intended solely for the information and use by the City Council of Magazine, Arkansas, Management of the Water and Sewer Department, and Arkansas Department of Finance and Administration, Office of Intergovernmental Services and is not intended to be and should not be used by anyone other than these specified parties.

Jones and Lawton, CPAs, P.A.

Russellville, Arkansas
January 30, 2025



CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF NET POSITION
JULY 31, 2023 AND 2022

	<u>ASSETS</u>	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents (Note 2)			
Unrestricted	\$	50,483	\$ 26,243
Restricted		74,762	84,218
Accounts Receivable (Note 3)		82,671	52,191
Inventory of Supplies		11,015	11,150
Other Current Assets		875	875
Property and Equipment (Note 4)			
Water System		669,182	669,182
Sewer System		1,519,711	1,519,711
Office Equipment		20,020	20,020
		<u>2,208,913</u>	<u>2,208,913</u>
Less: Accumulated Depreciation		<u>1,531,544</u>	<u>1,483,525</u>
		<u>677,369</u>	<u>725,388</u>
		<u>897,175</u>	<u>900,065</u>
	<u>LIABILITIES</u>		
Accounts Payable		19,062	26,639
Accrued Expenses		4,756	2,730
Customer Deposits		34,395	33,851
Long-term Liabilities: (Note 5)			
Due within 1 year		12,514	12,114
Due in more than 1 year		29,683	42,197
		<u>100,410</u>	<u>117,531</u>
	<u>NET POSITION</u>		
Net Invested in Capital Assets		635,172	671,077
Restricted		40,367	50,367
Unrestricted		121,226	61,090
		<u>796,765</u>	<u>782,534</u>
		<u>\$ 897,175</u>	<u>\$ 900,065</u>

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JULY 31, 2023 AND 2022

	2023	2022
OPERATING REVENUES		
Water and Sewer Revenues	\$ 408,906	\$ 325,462
OPERATING EXPENSES		
Water Purchased	115,549	117,272
Salaries	119,931	112,540
Payroll Taxes	11,159	8,718
Employee Benefits	17,545	13,359
Repairs & Maintenance	26,064	65,583
Professional Fees	4,482	31,678
Utilities	20,089	19,482
Auto Expense	6,927	5,993
Office Expense	9,728	4,640
Dues and Subscriptions	3,477	3,678
Permits and Licenses	3,328	2,700
Travel Expense	2,230	2,306
Insurance	2,284	1,174
Supplies	181	430
Miscellaneous	2,201	798
Depreciation	48,019	46,970
	393,194	437,321
INCOME (LOSS) from OPERATIONS	15,712	(111,859)
OTHER INCOME (EXPENSE)		
Gain on Sale of Assets	0	7,761
Interest Income	105	112
Interest Expense	(1,586)	(1,591)
	(1,481)	6,282
CHANGE IN NET POSITION	14,231	(105,577)
NET POSITION, BEGINNING OF YEAR	782,534	888,111
NET POSITION, END OF YEAR	\$ 796,765	\$ 782,534

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Water Customers	\$ 374,736	\$ 321,516
Payments to Suppliers	(177,696)	(209,677)
Payments to Employees	(137,476)	(125,899)
Payments for Other Admin Costs	(31,185)	(51,570)
Net Cash Provided (Used) by Operating Activities	28,379	(65,630)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	0	(62,995)
Sale of Property and Equipment	0	7,761
Interest Received	105	112
Net Cash Provided (Used) by Investing Activities	105	(55,122)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds from Long-term Debt	0	63,142
Principal Payments on Long-term Debt	(12,114)	(8,831)
Interest Paid on Long-term Debt	(1,586)	(1,591)
Net Cash Provided (Used) by Financing Activities	(13,700)	52,720
CHANGE IN CASH AND CASH EQUIVALENTS	14,784	(68,032)
CASH AND CASH EQUIVALENTS, BEG OF YEAR	110,461	178,493
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 125,245	\$ 110,461
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,586	0
Reconciliation of Cash to the Statement of Net Position		
Unrestricted	\$ 50,483	\$ 26,243
Restricted	74,762	84,218
	\$ 125,245	\$ 110,461

CITY OF MAGAZINE WATER AND SEWER DEPARTMENT
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2023 AND 2022

	2023	2022
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Income from Operations	\$ 15,712	\$ (111,859)
Adjustments to Reconcile Operating Income to Cash Provided by Operating Activities:		
Depreciation	48,019	46,970
(Increase) Decrease in Accounts Receivable	(30,480)	(7,290)
(Increase) Decrease in Inventory of Supplies	135	300
(Increase) Decrease in Other Current Assets	0	0
Increase (Decrease) in Accounts Payable	(7,577)	7,197
Increase (Decrease) in Accrued Expenses	2,026	(354)
Increase (Decrease) in Customer Deposits	544	(594)
	12,667	46,229
Net Cash Provided by Operating Activities	\$ 28,379	\$ (65,630)

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Magazine Water and Sewer Department is engaged in providing water and sewer services to the general public located in Magazine, Arkansas, and the surrounding area.

Organization

The City of Magazine Water and Sewer Department is a municipally operated system governed by the City of Magazine, Arkansas. The Department is a proprietary fund type utilizing enterprise funds to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

These financial statements represent only the Water and Sewer System funds and do not include data of other funds of the primary government necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

As a water utility, our contract with the customer is established when they complete the steps necessary to get the water service turned on. That contract is in force until they terminate their water service with us. The billing to our customers is on a regular cycle and becomes an accounts receivable balance when the bill is generated. Revenues are recognized when billed and expenses are recognized when incurred, regardless of the timing of the related cash flows.

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

Cash Equivalents

The Department considers cash equivalents to be short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. For purposes of the Statements of Cash Flows, cash and cash equivalents include "Unrestricted Cash and Cash Equivalents" and "Restricted Cash and Cash Equivalents". The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable and Bad Debts

The Magazine Water and Sewer Department services customers in Magazine, Arkansas and the surrounding area. All of the accounts receivable balance reported herein are from these customers. All accounts receivable are recorded at the gross value, and when deemed to be uncollectable, the accounts receivables are charged to bad debt expense using the allowance method for bad debts. Customers are required to make a deposit which is recorded on the balance sheet. When a bad debt is identified, the deposit can be offset against the receivable to mitigate the bad debt. Accounts receivables are presented net of the allowance for doubtful accounts.

Inventory of Supplies

Inventory is stated at cost, is determined on a first-in, first-out basis, and consist of construction and maintenance supplies related to the water and sewer systems.

Property and Equipment

Property and equipment are recorded at cost and is being depreciated over the estimated useful lives of the assets using the straight-line depreciation method. Estimated useful lives are as follows:

Water System	7-50 years
Sewer System	7-50 years
Office Equipment	5 years

Depreciation expenses for the years ended July 31, 2023 and 2022 amounted to \$48,019 and \$46,970, respectively. Repairs and maintenance are expenses as incurred.

Income Tax

The Magazine Water and Sewer Department is municipally owned and is exempt from Federal and State income tax pursuant to Internal Revenue Code 501(c)(12) and Arkansas Act 114 of 1957, which also exempts the Department from filing Tax Form 990.

Net Position Classifications

Net position is classified and displayed in the following three components:

Invested in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Consists of net assets with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted net position – All other net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted.”

MAGAZINE WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2023 AND 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Regulatory Environment

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

Use of Estimates

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

NOTE 2: CASH AND CASH EQUIVALENTS

At July 31, 2023 and 2022, the System had unrestricted and restricted cash as follows:

	<u>2023</u>	<u>2022</u>
<u>Unrestricted</u>		
Water & Sewer Revenue	\$ 50,483	\$ 26,243
<u>Restricted</u>		
Meter Fund	34,395	33,851
Depreciation Fund	<u>40,367</u>	<u>50,367</u>
	<u>74,762</u>	<u>84,218</u>
	<u>\$ 125,245</u>	<u>\$ 110,461</u>

NOTE 3: ACCOUNTS RECEIVABLE

Accounts Receivable consisted of the following at July 31, 2022 and 2021:

	<u>2023</u>	<u>2022</u>
Amounts Billed to Customers	\$ 69,666	\$ 49,786
Accrued Revenues	<u>22,005</u>	<u>11,405</u>
	91,671	61,191
Less Allowance for Doubtful Accounts	<u>9,000</u>	<u>9,000</u>
	<u>\$ 82,671</u>	<u>\$ 52,191</u>

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 4: PROPERTY AND EQUIPMENT

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

	<u>07-31-2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>07-31-2023</u>
Water System	\$ 669,182			\$ 669,182
Sewer System	1,519,711			1,519,711
Office Equipment	<u>20,020</u>			<u>20,020</u>
	<u>\$ 2,208,913</u>			<u>\$ 2,208,913</u>

At July 31, 2022, the Department had property and equipment as follows:

	<u>07-31-2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>07-31-2022</u>
Water System	\$ 669,182			\$ 669,182
Sewer System	1,456,716	\$ 62,995		1,519,711
Office Equipment	<u>20,020</u>			<u>20,020</u>
	<u>\$ 2,145,918</u>	<u>\$ 62,995</u>		<u>\$ 2,208,913</u>

NOTE 5: LONG-TERM NOTES

Long-term debt at July 31, 2023:

	<u>07-31-2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>07-31-2023</u>
Note payable to Community National Bank, interest rate of 3.25%, payable in monthly installments of \$1,141 including interest, secured by equipment. This note will mature in October, 2026	<u>\$ 54,311</u>		<u>\$ 12,114</u>	\$ 42,197
Less Current Maturities Payable				<u>12,514</u>
				<u>\$ 29,683</u>

The aggregate maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 12,514	\$ 1,186	\$ 13,700
2025	12,926	774	13,700
2026	13,353	347	13,700
2027	<u>3,404</u>	<u>21</u>	<u>3,425</u>
	<u>\$ 42,197</u>	<u>\$ 2,328</u>	<u>\$ 44,525</u>

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 5: LONG-TERM NOTES (continued)

Long-term debt at July 31, 2022:

	<u>07-31-2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>07-31-2022</u>
Note payable to Community National Bank, interest rate of 3.25%, payable in monthly installments of \$1,141 including interest, secured by equipment. This note will mature in October, 2026	\$ 0	\$ 63,142	\$ 8,831	\$ 54,311
Less Current Maturities Payable				<u>12,114</u>
				<u>\$ 42,197</u>

The aggregate maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 12,114	\$ 1,586	\$ 13,700
2024	12,514	1,186	13,700
2025	12,926	774	13,700
2026	13,353	347	13,700
2027	3,404	21	3,425
	<u>\$ 54,311</u>	<u>\$ 3,914</u>	<u>\$ 58,225</u>

NOTE 6: WATER PURCHASE CONTRACT

The Department entered into a water purchase contract with the Booneville Water Department. This contract allows the Department to purchase treated water from the Booneville Water Department at a price of \$1.50 per 1,000 gallons, plus an additional water development fee of \$.25 per 1,000 gallons. For the years ended July 31, 2023 and 2022 the Department purchased 65,984,000 and 66,969,000 gallons for a total cost of \$115,549 and \$117,272, respectively.

NOTE 7: CONCENTRATION OF RISK

The Department maintains cash balances with a local bank. The balances at this bank are secured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. There were no uninsured deposits at July 31, 2023 or 2022.

The Department provides water services and sewer services (if applicable) to residents of Magazine, Arkansas, and the surrounding rural community. The Department grants unsecured credit to its customers. The credit risk is considered minimal because the monthly revolving accounts receivable balances are small, the customer base is very stable with minimal changes, and the limited geographical area covered.

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 8: SCHEDULE OF RATES

Effective January 1, 2023:

Monthly Water Rates:

- a. Minimum charge on first 1,000 gallons, \$22.75
- b. Charge of \$8.00 per 1,000 gallons for the next 4,000 gallons
- c. Charge of \$6.00 per 1,000 gallons for the next 5,000 gallons
- d. Charge of \$4.00 per 1,000 gallons for the usage over 10,000 gallons

Monthly Wastewater Rates:

- a. Minimum charge on first 1,000 gallons, \$28.00
- b. Charge of \$6.00 per 1,000 gallons for the next 2,000 gallons
- c. Charge of \$4.00 per 1,000 gallons for the usage over 3,000 gallons.

Effective through December 31, 2022:

Monthly Water Rates:

- e. Minimum charge on first 1,000 gallons, \$22.75
- f. Charge of \$4.55 per 1,000 gallons for the next 4,000 gallons
- g. Charge of \$3.25 per 1,000 gallons for the next 5,000 gallons
- h. Charge of \$3.00 per 1,000 gallons for the usage over 10,000 gallons

Monthly Wastewater Rates:

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

NOTE 9: CUSTOMERS

The number of customers using the water and sewer services as of July 31, 2023 and 2022 were 397 and 404, respectively.

NOTE 10: INSURANCE COVERAGE

Company: Arkansas Municipal League
Policy No.: PNC546VPR
Expiration: 09-14-2023
Coverage: Vehicle liability and physical damage

Company: Arkansas Municipal League
Policy No.: PNC546PPR
Expiration: 02-03-2024
Coverage: Property

Company: Municipal League Workers' Compensation Trust
Policy No: 272
Expiration: 12-31-2023
Coverage: Workmen Compensation

MAGAZINE WATER AND SEWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2023 AND 2022

NOTE 11: SUBSEQUENT EVENTS

Management has evaluated events through January 30, 2025, which is the date the financial statements were available to be issued.