

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of**  
**Judsonia, Arkansas**

**Independent Auditor's Report**  
**and Financial Statements**

**December 31, 2022**

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**

**Table of Contents**

	<u>Page</u>
<b>Independent Auditor's Report.....</b>	1-3
<b>Management's Discussion and Analysis .....</b>	4-9
<b>Financial Statements</b>	
Statement of Net Position .....	10
Statement of Revenues, Expenses and Changes in Net Position .....	11
Statement of Cash Flows .....	12-13
Notes to Financial Statements .....	14-22
<b>Supplementary Information</b>	
Supplemental Schedule of Users and Consumption .....	23
Supplemental Schedule of Insurance in Force .....	24
Supplemental Schedules of Water and Sewer Rates .....	25
Supplemental Schedules of City Commission Members .....	26
<b>Other Required Reports</b>	
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 <i>Government Auditing Standards</i> .....	27-28
Schedule of Findings and Management Responses .....	29-30



## Welch, Couch & Company, PA

### Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA  
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA  
M. Garrett McSpadden, CPA

---

Members of American Institute of Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of  
Judsonia Water and Sewer System  
Judsonia, Arkansas

#### Opinion

We have audited the accompanying financial statements of Judsonia Water and Sewer System, a proprietary fund of the City of Judsonia, Arkansas as of and for the year ended December 31, 2022, and the related notes to the 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 financial position of Judsonia Water and Sewer System, a proprietary fund of the City of Judsonia, Arkansas, as of December 31, 2022, and the changes in its financial position and cash flows 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 Judsonia Water and Sewer System, 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 Judsonia Water and Sewer System and do not purport to, and do not, present fairly the financial position of the City of Judsonia, Arkansas, as of December 31, 2022, 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Batesville:** PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

**Salem:** PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

**West Plains:** 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

**Little Rock:** 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

[www.welchcouch.com](http://www.welchcouch.com)

## **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 opinion. 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 City of Judsonia Water and Sewer System'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.

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**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 opinions on the financial statements that collectively comprise the Judsonia Water and Sewer System's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the basic 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 basic

financial statements. The 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 accompanying supplementary information is 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 October 27, 2023 on our consideration of Judsonia Water and Sewer System'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 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 Judsonia Water and Sewer System's internal control over financial reporting and compliance.

*Welch, Couch & Company, PA*  
**Welch, Couch & Company, PA**  
Certified Public Accountants

Batesville, Arkansas  
October 27, 2023

**City of Judsonia**  
318 Van Buren St.  
Judsonia, Arkansas 72081  
(501)-729-5318

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of**  
**Judsonia, Arkansas**  
**Management's Discussion and Analysis**

Our discussion and analysis of Judsonia Water and Sewer System's financial performance provides an overview of the Water and Sewer System's financial activities for the fiscal years ended December 31, 2022 and 2021. Please read it in conjunction with the Water and Sewer System's financial statements, which begin on page 10.

**Financial Highlights**

- The Water and Sewer System's net position increased by \$243,859 from \$623,084 in 2021 to \$866,943 in 2022 as a result of this year's operations. The Water and Sewer System's net position increased by \$118,758 from \$504,326 in 2020 to \$623,084 in 2021 as a result of prior year's operations.
- The Water and Sewer System's operating revenue exceeded operating expense by \$303,481 for the year ended December 31, 2022, and operating revenue exceeded operating expense by \$179,809 for the year ended December 31, 2021.
- Cash and cash equivalents increased by \$192,814 and increased by \$109,328 for the years ended December 31, 2022 and 2021, respectively.

**Using This Annual Report**

This annual report consists of three parts – management's discussion and analysis, the basic financial statements and supplementary information. The basic financial statements consist of three financial statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes focus on the individual parts of the Water and Sewer System, offering short- and long-term financial information about the activities that the government operates like businesses.

**Water & Sewer Dept. (501)-729-5314 / Sewer Treatment Plant (501)-729-5314**

## ***The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position***

Our analysis of the Water and Sewer System's finances begins on page 6. One of the most important questions asked about the Water and Sewer System's finances is, "Is the Water and Sewer System as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Water and Sewer System's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Water and Sewer System's net position and changes in them. You can think of the Water and Sewer System's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the Water and Sewer System's financial health or financial position. Over time, increases or decreases in the Water and Sewer System's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors.

## ***The Statement of Cash Flows***

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as:

- Where did cash come from?
- What was cash used for?
- What was the change in cash balance during the reporting period?

## ***Notes to the Financial Statements***

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

## ***The Water and Sewer System's Net Position***

The Water and Sewer System's net position represent the difference between its assets less its liabilities reported in the statement of net position on page 10. The Water and Sewer System's net position increased during 2022 by \$243,589, and increased during 2021 by \$118,758.

Table 1 below details the various elements of the statement of net position for December 31, 2022 and 2021:

<b>Table 1</b>		
<b>Assets, Liabilities and Net Position</b>		
	<b>December 31,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
Total current assets	\$ 494,768	\$ 276,566
Noncurrent assets	214,408	197,786
Capital assets - net	<u>1,425,286</u>	<u>1,476,336</u>
<b>Total assets</b>	<b><u>2,134,462</u></b>	<b><u>1,950,688</u></b>
Current liabilities	\$ 172,493	\$ 141,688
Long-term debt, net of current maturities	1,030,469	1,127,950
Other liabilities	<u>64,557</u>	<u>57,966</u>
<b>Total liabilities</b>	<b><u>1,267,519</u></b>	<b><u>1,327,604</u></b>
<b>Net position</b>		
Net investment in capital assets	\$ 297,456	\$ 255,835
Restricted	116,292	197,686
Unrestricted	<u>453,195</u>	<u>169,563</u>
<b>Total net position</b>	<b><u>866,943</u></b>	<b><u>623,084</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 2,134,462</u></b>	<b><u>\$ 1,950,688</u></b>



## Operating Results and Changes in the Water and Sewer System's Net Position

The Water and Sewer System's net position increased by \$243,859 in 2022 and increased by \$118,758 in 2021. The changes are made up of very different components, as shown in Table 2, which follows:

	Years Ended December 31,	
	<u>2022</u>	<u>2021</u>
<b>Operating revenues</b>		
Water & Sewer Revenue	\$ 944,388	\$ 821,579
Hook up and reconnection fees	6,000	11,000
Other revenue	60,652	37,671
Total operating revenues	<u>1,011,040</u>	<u>870,250</u>
<b>Operating expenses</b>		
Water purchased	212,330	207,200
Salaries	148,898	167,972
Employee Benefits	13,964	16,112
Payroll taxes	12,690	15,796
Chemicals and supplies	9,039	8,800
Repairs	8,462	27,198
Truck expense	12,457	14,846
Utilities and telephone	30,668	31,974
Laboratory fees	1,848	1,795
Insurance	3,043	3,818
Office supplies and postage	17,531	19,178
Professional fees	14,573	8,126
Miscellaneous	4,646	5,381
Contract labor	78,116	36,335
Bad debt	953	1,868
Equipment expense	15,576	628
Tools	2,101	4,534
Depreciation and amortization	120,664	118,880
Total operating expenses	<u>707,559</u>	<u>690,441</u>
Operating income	303,481	179,809
Nonoperating revenues (expenses)	<u>(59,622)</u>	<u>(61,051)</u>
Increase in net position	<u>243,859</u>	<u>118,758</u>
Net position - beginning of year	<u>623,084</u>	<u>504,326</u>
Net position - end of year	<u><u>\$ 866,943</u></u>	<u><u>\$ 623,084</u></u>

## ***Operating Revenues and Expenses***

The Water and Sewer System's total operating revenues increased by \$140,790 from \$870,250 in 2021 to \$1,011,040 in 2022. Total operating expenses increased by \$17,118 from \$690,441 in 2021 to \$707,559 in 2022.

## ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses primarily consist of interest income on interest bearing accounts and interest expense on long-term debt. Interest income was \$475 and \$455 in 2022 and 2021, respectively. Interest expense was \$60,097 and \$64,506 in 2022 and 2021, respectively.

## **The Water and Sewer System's Cash Flows**

Changes in the Water and Sewer System's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

## **Capital Asset and Debt Administration**

### ***Capital Assets***

At December 31, 2022 and 2021, the Water and Sewer System had \$1,452,286 and \$1,476,336, respectively, invested in a broad range of capital assets, including a sewer treatment plant, water tanks, water and sewer lines, furniture and fixtures. The Water and Sewer System's capital asset purchases totaled \$69,614 in 2022, as compared to \$88,255 in 2021.

### ***Debt***

In 1988 and 1995, the System received loans from the United States Department of Agriculture (USDA). The proceeds were used to fund construction and improvement on the water and sewer system. As of December 31, 2022 and December 31, 2021, notes payable were \$1,096,796 and \$1,180,322, respectively.

In 2021, the system received a loan from First Security Bank. The proceeds were used to purchase a vehicle. As of December 31, 2022 and 2021, notes payable were \$31,034 and \$40,179, respectively.

At December 31, 2022, the Water and Sewer System had \$1,127,830 in outstanding debt, as shown in Table 3, which follows:

<b>Table 3</b>		
<b>Outstanding Debt at Year End</b>		
	<b>Years Ended</b>	
	<b>December 31,</b>	
	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Notes payable</b>		
Long-term	\$ 1,030,469	\$ 1,127,950
Current	97,361	92,551
Total	<u>1,127,830</u>	<u>1,220,501</u>
<b>Total debt</b>	<b><u>\$ 1,127,830</u></b>	<b><u>\$ 1,220,501</u></b>

## **Contacting the Water and Sewer System's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Water and Sewer System's finances and to show the Water and Sewer System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Judsonia Water and Sewer System, 318 Van Buren St. Judsonia, Arkansas 72081.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Statement of Net Position**  
**December 31, 2022**

**Current assets**

Cash and cash equivalents - Notes 1 and 2	\$ 301,647
Accounts receivable, net of allowance - Note 3	115,970
Prepaid expenses	2,107
Inventory - Note 1	75,044
<b>Total current assets</b>	<u>494,768</u>

**Noncurrent assets**

Meter deposit fund - cash and cash equivalents	71,749
Debt service fund - cash and cash equivalents	142,559
<b>Total noncurrent assets</b>	<u>214,308</u>

<b>Capital assets</b> - net of accumulated depreciation - Notes 1 and 4	<u>1,425,286</u>
---	------------------

<b>Utility Deposit</b>	<u>100</u>
------------------------	------------

<b>Total assets</b>	<u><u>\$ 2,134,462</u></u>
---------------------	----------------------------

**Liabilities and Net Position**

**Current liabilities**

Accounts payable	\$ 38,978
Interfund payable - City of Judsonia	19,801
Accrued expenses	16,353
Current portion of long-term debt - Note 5	97,361
<b>Total current liabilities</b>	<u>172,493</u>

**Noncurrent liabilities**

Long-Term Debt, net of current portion - Note 5	1,030,469
<b>Total noncurrent liabilities</b>	<u>1,030,469</u>

**Other liabilities**

Meter Deposits	<u>64,557</u>
----------------	---------------

<b>Total liabilities</b>	<u>1,267,519</u>
--------------------------	------------------

**Net position**

Net investment in capital assets	297,456
Restricted for:	
Debt Service	44,543
Meter Deposit	71,749
Unrestricted	453,195
<b>Total net position</b>	<u>866,943</u>

<b>Total liabilities and net position</b>	<u><u>\$ 2,134,462</u></u>
---	----------------------------

The notes to financial statements are an integral part of this statement.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2022**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating revenues</b>			
Service revenue	\$ 742,694	\$ 201,694	\$ 944,388
Hook-up and reconnection fees	5,000	1,000	6,000
Other revenue	45,107	15,545	60,652
<b>Total operating revenues</b>	<u>792,801</u>	<u>218,239</u>	<u>1,011,040</u>
<b>Cost of goods sold</b>			
Water purchased	<u>212,330</u>	<u>-</u>	<u>212,330</u>
<b>Gross profit</b>	<u>580,471</u>	<u>218,239</u>	<u>798,710</u>
<b>Operating expenses</b>			
Salaries	74,449	74,449	148,898
Employee Benefits	6,982	6,982	13,964
Payroll taxes	6,345	6,345	12,690
Chemicals and supplies	9,039	-	9,039
Repairs	4,542	3,920	8,462
Truck expense	6,228	6,229	12,457
Utilities and telephone	15,334	15,334	30,668
Laboratory fees	1,848	-	1,848
Insurance	1,521	1,522	3,043
Office supplies and postage	8,765	8,766	17,531
Professional fees	7,286	7,287	14,573
Miscellaneous	4,646	-	4,646
Contract labor	39,058	39,058	78,116
Bad debt	666	287	953
Equipment expense	15,576	-	15,576
Tools	1,051	1,050	2,101
Depreciation and amortization	60,332	60,332	120,664
<b>Total operating expenses</b>	<u>263,668</u>	<u>231,561</u>	<u>495,229</u>
<b>Operating income</b>	<u>316,803</u>	<u>(13,322)</u>	<u>303,481</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	475	-	475
Interest expense	(49,521)	(10,576)	(60,097)
<b>Total nonoperating revenues (expenses)</b>	<u>(49,046)</u>	<u>(10,576)</u>	<u>(59,622)</u>
<b>Change in net position</b>	<u>267,757</u>	<u>(23,898)</u>	<u>243,859</u>
<b>Net position - beginning of year</b>			<u>623,084</u>
<b>Net position - end of year</b>			<u>866,943</u>

The notes to financial statements are an integral part of this statement.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2022**

	<u>2022</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,234,362
Payments to suppliers	(323,076)
Payments to employees	(175,553)
Other receipts (payments)	(321,012)
<b>Net cash provided by operating activities</b>	<u>414,721</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchase of capital assets	(69,614)
Principal payments on long-term debt	(92,671)
Interest payments on long-term debt	(60,097)
<b>Net cash (used in) capital and related financing activities</b>	<u>(222,382)</u>
<b>Cash flows from investing activities:</b>	
Interest income	475
<b>Net cash provided by investing activities</b>	<u>475</u>
<b>Net increase in cash and cash equivalents</b>	<u>192,814</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>323,141</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 515,955</u></u>
<b>Reconciliation of total cash and cash equivalents</b>	
Current assets - cash and cash equivalents	\$ 301,647
Noncurrent assets - cash and cash equivalents	214,308
<b>Total cash and cash equivalents</b>	<u><u>\$ 515,955</u></u>
<b><u>Supplemental information</u></b>	
Interest paid	<u><u>\$ 60,097</u></u>

(Continued)

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Statement of Cash Flows (Cont.)**  
**For the Year Ended December 31, 2022**

	<u><b>2022</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 303,481
<b>Adjustments to reconcile operating income to net cash flows provided by operating activities:</b>	
Depreciation and amortization	120,664
Provision for bad debts	(953)
<b>Net changes in:</b>	
Accounts receivable	(7,392)
Inventory	(33,665)
Accrued expenses	25,996
Meter deposits	6,590
<b>Net cash provided by operating activities</b>	<u><u><b>\$ 414,721</b></u></u>

The notes to financial statements are an integral part of this statement.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies**

***Reporting Entity***

The Judsonia Water and Sewer System is considered to be a proprietary fund of the City of Judsonia, Arkansas. These financial statements present only the Judsonia Water and Sewer System accounts and are not intended to present the financial position, results of operations and cash flows of the City of Judsonia, Arkansas.

***Basis of Accounting***

The Water and Sewer System's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds. The financial statements of the Water and Sewer System have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange takes place.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and investments in highly liquid debt instruments with an original maturity of three months or less.

***Accounts Receivable***

The Water and Sewer System grants credit to residents for water sales. The collectability of the Water and Sewer System's receivables is dependent upon the residents' ability to honor their obligations for their water bills. Accounts receivable are carried on the balance sheet at net realizable value. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. An allowance is estimated based on historical collection percentages. The allowance for doubtful accounts totaled \$10,917 and \$9,964 at December 31, 2022 and 2021, respectively. The Water and Sewer System had bad debt expense totaling \$953 and \$1,868 for the periods ended December 31, 2022 or 2021, respectively.

***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.



**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Cont.)**

***Inventories***

Inventories are priced at the lower of cost or net realizable value using the first-in, first-out method.

***Capital Assets***

Capital assets costing over \$5,000 are recorded at historical cost as acquired and are depreciated using the straight-line method over the estimated useful lives of 5 – 15 years for furniture and equipment, and 20 – 50 years for buildings, storage tanks, and distribution lines. Contributed capital assets are reported at their estimated fair value at the time of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest during the construction phase of these fixed assets is reflected in the capitalized value of the asset constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized but are charged against earnings when incurred.

***Net Position***

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The Water and Sewer System reports three categories of net position as follows:

*Net investment in capital assets* – consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisitions, construction or improvement of those assets and increases by balances of any deferred outflows of resources related to those assets. If there are significant unspent capital related debt proceeds at year-end, the portion of the debt attributable to the unspent process is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted net position* – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or creditors (such as through debt covenants) or other constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* – consists of all other net positions that does not meet the definition of the above two components and is available for general use.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Cont.)**

***Grants and Contributions***

From time to time, the Water and Sewer System may receive grants and contributions. Revenue from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

***Restricted Resources***

When the Water and Sewer System has both restricted and unrestricted resources available to finance a particular program, it is the Water and Sewer System's policy to use restricted resources before unrestricted resources.

***Operating Revenues and Expenses***

The Water and Sewer System's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing water utility and sewer services. Operating expenses are all expenses incurred to provide water utility and sewer services, other than financing costs.

***Income Taxes***

The Water and Sewer System is considered a political subdivision of the State of Arkansas and is exempt from federal income taxes under Section 115 of the Internal Revenue Code and a similar provision under state law and therefore the accompanying financial statements do not reflect a provision or liability for federal or state income taxes.

***Revenue Recognition***

Revenues from water sales are recognized at the time-of-service delivery based on actual or estimated water meter readings.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Cont.)**

***Reclassification of Prior Financial Statement Presentation***

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 financial statement presentation. These reclassifications had no effect on the changes in net position as previously reported.

**Note 2 – Significant Concentration of Credit Risk**

Credit risk for trade accounts receivable is concentrated because substantially all of the balances are receivable from individuals located within the same geographic region. Credit is granted to the Water and Sewer System's customers subject to a meter deposit which is refundable after one year if the customer keeps their account current.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies of instrumentalities or the State of Arkansas; bonds of any city, county, school district or special district of the State of Arkansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Water and Sewer System's deposit policy for custodial credit risk requires compliance with the provision of state law. At December 31, 2022, the Water and Sewer System's carrying amount of deposits was \$515,955. The bank balance of \$521,838 was insured by FDIC insurance.

*Interest rate risk* – the Water and Sewer System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

*Credit risk* – the Water and Sewer System does not have a formal policy that limits exposure to credit risk.

*Concentration of credit risk* – the Water and Sewer System places no limit on the amount it may invest in any one issuer.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 2 – Significant Concentration of Credit Risk (Cont.)**

The carrying amounts of deposits are included in the Water and Sewer System's balance sheets as follows:

	<u>2022</u>
Deposits	\$ 515,955
<b>Total</b>	<b>\$ 515,955</b>
Included in the following balance sheet captions:	
Cash and cash equivalents	\$ 301,647
Noncurrent cash and cash equivalents	214,308
<b>Total</b>	<b>\$ 515,955</b>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2022:

	<u>2022</u>
Interest income	\$ 475

**Note 3 – Accounts Receivable**

Accounts receivable consists of the following at December 31, 2022:

	<u>2022</u>
Accounts receivable	\$ 126,887
Allowance for doubtful accounts	(10,917)
<b>Accounts receivable - net of allowance for doubtful accounts</b>	<b>\$ 115,970</b>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 4- Capital Assets and Depreciation**

Capital asset additions, retirements and balances for the years ended December 31, 2022 were as follows:

	Balance December 31, <u>2021</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2022</u>
Land	\$ 133,387	\$ -	\$ -	\$ 133,387
Equipment	638,573	46,811	-	685,384
Vehicles	98,082	-	-	98,082
Water & Sewer System	3,788,417	-	-	3,788,417
Buildings	48,846	-	-	48,846
Totals at historical cost	<u>4,707,305</u>	<u>46,811</u>	<u>-</u>	<u>4,754,116</u>
Less accumulated depreciation	<u>(3,230,969)</u>	<u>(120,664)</u>	<u>-</u>	<u>(3,351,633)</u>
Construction in Progress	<u>-</u>	<u>22,803</u>	<u>-</u>	<u>22,803</u>
Capital assets, net	<u><u>\$ 1,476,336</u></u>	<u><u>\$ (51,050)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,425,286</u></u>

**Note 5 – Long-Term Debt**

A schedule of changes in the Water and Sewer System's long-term debt for December 31, 2022 follows:

	Balance at December 31, <u>2021</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2022</u>	Amount Due Within <u>One Year</u>
Long-term debt:					
USDA - 91-05 (A)	\$ 953,691	\$ -	\$ (50,314)	\$ 903,377	\$ 52,846
USDA - 92-03 (B)	226,631	-	(33,212)	193,419	34,891
First Security Bank (C)	<u>40,179</u>	<u>-</u>	<u>(9,145)</u>	<u>31,034</u>	<u>9,624</u>
Total long-term debt	<u><u>\$ 1,220,501</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (92,671)</u></u>	<u><u>\$ 1,127,830</u></u>	<u><u>\$ 97,361</u></u>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 5 – Long-Term Debt (Cont.)**

These funds can be used for payment due on the related notes if sufficient funds are not available in unrestricted funds. These funds may also be used for other specific purposes after receiving prior approval from USDA. As of December 31, 2022, the reserve for the 1995 loan is underfunded by \$9,481.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 97,361	55,408	\$ 152,769
2024	102,276	50,493	152,769
2025	107,736	45,032	152,768
2026	100,998	39,649	140,647
2027	75,768	66,036	141,804
2028-2032	379,220	110,936	490,156
2033-2035	264,471	15,730	280,201
<b>Total</b>	<b>\$ 1,127,830</b>	<b>\$ 383,284</b>	<b>\$ 1,511,114</b>

- A) USDA note payable dated August 16, 1995, due in monthly installments of \$8,168 including principal and interest at 5.125%.
- B) USDA note payable dated April 1, 1988, due in monthly installments of \$3,649 including principal and interest at 5.00%.
- C) First Security Bank note payable dated January 12, 2021, due in monthly installments of \$914 including principal and interest at 5.00%

The System is required by loan agreements to transfer a monthly amount to restricted reserves until a specified minimum balance is reached. The requirements are as follows:

	<u>Minimum Balance</u>	<u>12/31/2022 Balance</u>	<u>Over/(Under) Funded</u>
<b>USDA, Rural Development:</b>			
RECDS - 1988 Loan	43,800	44,543	743
RECDS - 1995 Loan	98,016	98,016	-
<b>Totals</b>	<b>141,816</b>	<b>142,559</b>	<b>743</b>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 6 – Compensated Absences**

It is the Water and Sewer System's policy to accumulate earned but unused vacation benefits. Because the number of the Water and Sewer System's employees is small, the accrued vacation is not expected to be material and is not recorded.

**Note 7 – Risk Management**

The Water and Sewer System is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water and Sewer System purchases commercial insurance coverage in order to limit its exposure to such risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

The System participated in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

*Workers' compensation* - this program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised annually based on the cost experience for the particular municipality or group as determined by the workers' compensation commission.

*Municipal vehicle program* –

- *Liability* – this program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury per person. \$50,000 for bodily injury per accident and \$25,000 for property damage per accident. The System shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the System.
- *Physical damage* – this program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The System agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

**Note 8 – Related Party Transactions**

The System paid Spurlock, Inc. \$68,310 for services related to water and sewer system repairs and maintenance. Spurlock, Inc. is owned by Commission member Mitchell Spurlock.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2022**

**Note 9 – ADEQ Consent Administrative Order**

The Arkansas Department of Environmental Quality (ADEQ) issued a Consent Administrative Order for the City of Judsonia effective June 25, 2016 due to reoccurring sewer overflows. In accordance with the order, the System was required to pay a voluntary civil penalty of \$3,700 and to submit a plan to reduce and eliminate the sanitary sewer overflows by July 31, 2016.

The System submitted the required progress report on July 29, 2016. On August 4, 2016, the System submitted a letter to ADEQ with a revised Corrective Action Plan with a final compliance date of January 31, 2020. On April 24, 2020, the System provided a letter to ADEQ from a professional engineer which listed the completed milestone items. In addition, the request included a revised Corrective Action Plan with a new milestone schedule and new final date of compliance of December 31, 2021.

On October 23, 2023 the ADEQ provided the City of Judsonia with an additional compliance extension. The City must now be in compliance by March 31, 2026. ADEQ also provided an updated milestone schedule to reach this goal.

**Note 10 – Subsequent Events**

Management has evaluated subsequent events through January 10, 2023, the date on which the financial statements were available to be issued. No events were noted which would require recognition or disclosure in the financial statements.



**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Supplemental Schedule of Users and Consumption**  
**Year Ended December 31, 2022**

<u>Month</u>	<u>Consumption</u>	<u>Active Users</u>
January	4,658,800	1,248
February	4,864,000	1,253
March	3,948,500	1,253
April	4,884,100	1,251
May	4,437,200	1,251
June	5,639,900	1,244
July	6,432,900	1,244
August	5,338,000	1,251
September	5,344,400	1,246
October	4,939,900	1,260
November	4,348,700	1,260
December	5,101,400	1,258
<b>Total consumption</b>	<b><u>59,937,800</u></b>	
<b>Monthly averages</b>	<b><u>4,994,817</u></b>	<b><u>1,252</u></b>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Supplemental Schedule of Insurance in Force**  
**Year Ended December 31, 2022**

- A)** Insurance Carrier: Arkansas Municipal League  
Period Covered: 9/01/2022 - 9/01/2023  
Coverage: Buildings and Contents  
Coverage Amount: \$400,985
- B)** Insurance Carrier: Arkansas Municipal League  
Period Covered: 9/01/2022 - 9/01/2023  
Coverage: Vehicles and Equipment  
Coverage Amount: \$75,136
- C)** Insurance Carrier: Arkansas Municipal League  
Period Covered: 1/01/2022 - 12/31/2023  
Coverage: Workers Compensation

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Supplemental Schedule of Water and Sewer Rates**  
**Year Ended December 31, 2022**

December 31, 2022

**Water Rates**

**City**

From 0 to 2,000

\$27.00

From 2,000 and above

\$10.25 per 1,000 gallons

**Sewer Rates**

**City**

From 0 to 2,000

\$14.85

From 2,000 and above

3.24 per 1,000 gallons

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Supplemental Schedules of City Commission Members**  
**Years Ended December 31, 2022**

**For the year ended December 31, 2022:**

President: Mitchell Spurlock

Secretary: Mary Spurlock

Member: Rickey Holmes



## Welch, Couch & Company, PA

Certified Public Accountants

John Ed Welch, CPA | William T. Couch, Jr., CPA  
Jeff D. Welch, CPA, JD | Rachel M. Pennywitt, CPA  
M. Garrett McSpadden, CPA

---

Members of American Institute of Certified Public Accountants

### 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

To the Honorable Mayor and City Council of  
Judsonia Water and Sewer System  
Judsonia, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Judsonia Water and Sewer System, a proprietary fund of the City of Judsonia, Arkansas as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Judsonia Water and Sewer System's basic financial statements, and have issued our report thereon dated October 27, 2023.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Judsonia Water and Sewer System'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 Judsonia Water and Sewer System's internal control. Accordingly, we do not express an opinion on the effectiveness of Judsonia Water and Sewer System'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items # 2022-01 and # 2022-02, that we consider to be significant deficiencies.

**Batesville:** PO Box 2094 | Batesville, AR 72503 | P: 870.793.5231 | F: 870.793.7788

**Salem:** PO Box 647 | Salem, AR 72576 | P: 870.895.3212 | F: 870.895.2998

**West Plains:** 1386 Bill Virdon Blvd. | West Plains, MO 65775 | P: 417.256.6624 | F: 417.256.1171

**Little Rock:** 1501 N. University, Suite 268 | Little Rock, AR 72207 | P: 501.468.0089 | F: 501.557.3929

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Judsonia Water and Sewer System '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*.

## **Judsonia Water and Sewer System 's Response to Findings**

Judsonia Water and Sewer System 's response to the findings identified in our audit are described in the accompanying schedule of findings and management responses. Judsonia Water and Sewer System 's 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 result 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.

*Welch, Couch & Company, PA*  
**Welch, Couch & Company, PA**  
Certified Public Accountants

Batesville, Arkansas  
October 27, 2023

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Schedule of Findings and Management Responses**  
**December 31, 2022**

**Financial Statement Findings**

***Significant Deficiency***

**2022-01 – Segregation of Duties**

**Condition:** Our review of the Water and Sewer System's internal control structure disclosed that primarily due to the limited number of accounting personnel which effectively precludes an adequate segregation of duties, there are inherent limitations in the Water and Sewer System's controls in this regard. While we realize that the Water and Sewer System does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be practicable from a cost benefit standpoint, we are required as a part of our professional responsibilities to report this condition.

**Criteria:** Internal controls should be in place to eliminate the simultaneous functions of authorization, physical custody of assets and recording of transactions.

**Cause:** The System has a limited number of accounting personnel.

**Effect:** Inadequate segregation of duties could allow errors or irregularities in the accounting records to go undetected for extended periods of time.

**Recommendation:** When possible, such activities should be split between employees with reconciliations and other key accounting data verified by management.

**Management Response:** Judsonia Water and Sewer System has a limited number of accounting personnel available to perform its accounting and reporting responsibilities. We will continue to segregate internal control functions to the greatest extent possible. However, it is not feasible from a cost/benefit standpoint to hire additional personnel in order to obtain greater segregation of duties.

**2022-02 – Financial Reporting**

**Condition:** The Water and Sewer System prepares its interim financial statements on the cash basis of accounting, whereby certain revenues and the related assets are recognized when received, and expenses are recognized when paid. Significant audit adjustments are proposed annually to adjust books of record to accrual basis.

**Criteria:** The accrual basis of accounting should be in use to show revenues and related assets are recorded when earned and expenses are recorded when the obligation is incurred.

**Cause:** The System uses the cash basis for interim purposes because it is less burdensome.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Schedule of Findings and Management Responses (Cont.)**  
**December 31, 2022**

**Financial Statement Findings (Cont.)**

***Significant Deficiency (cont.)***

**2022-02 – Financial Reporting (cont.)**

***Effect:*** Failure to record account activity on the accrual basis of accounting will cause inaccurate financial reporting.

***Recommendation:*** We recommend that the accrual basis of accounting be used throughout the year. Under that basis, revenues and related assets are recorded when earned and expenses are recorded when the obligation is incurred. The accrual basis is required by generally accepted accounting principles since it results in financial statements that reflect the complete effects of an entity's financial transactions for a period.

***Management Response:*** Management concurs with the finding and understands the accrual basis is required by generally accepted accounting principles since it results in financial statements that reflect the complete effects of an entity's financial transactions for a period.