

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

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

**December 31, 2023**

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

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**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

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the business-type activities of the Judsonia Water and Sewer System, (a proprietary fund of the City of Judsonia, Arkansas), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Judsonia Water and Sewer System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Judsonia Water and Sewer System, as of December 31, 2023, and the changes in 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 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 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 of the Judsonia Water and Sewer System are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the City of Judsonia, Arkansas that is attributable to the Judsonia Water and Sewer System. They do not purport to, and do not, present fairly the financial position of the City of Judsonia, 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.

***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, 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.

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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 Judsonia Water and Sewer System'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.

### ***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 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 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 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 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Judsonia Water and Sewer System's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 9 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***

Management is responsible for the supplementary information on pages 22-25. Our opinion on the basic financial statements do not cover the supplementary information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the supplementary information and consider whether a material inconsistency exists between the supplementary information and the basic financial statements or the supplementary information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the supplementary information exists, we are required to describe it in our report.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2024, on our consideration of the 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 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 Judsonia Water and Sewer System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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  
December 18, 2024

**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, 2023 and 2022. 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 \$600,272 from \$866,943 in 2022 to \$1,467,215 in 2023 as a result of this year's operations. 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 prior year's operations.
- The Water and Sewer System's operating revenue exceeded operating expense by \$213,233 for the year ended December 31, 2023, and operating revenue exceeded operating expense by \$303,481 for the year ended December 31, 2022.
- Cash and cash equivalents increased by \$38,807 and increased by \$192,814 for the years ended December 31, 2023 and 2022, respectively.
- The Water and Sewer System did not borrow any additional monies in 2023 and 2022. The Water and Sewer System made debt principal payments of \$97,319 and \$92,671 in 2023 and 2022, 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.

Table 1 below details the various elements of the statements of net position for December 31, 2023 and 2022:

<b>Table 1</b>		
<b>Assets, Liabilities and Net Position</b>		
	<b>December 31,</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
Total current assets	\$ 428,536	\$ 494,768
Noncurrent assets	270,337	214,408
Capital assets - net	<u>1,933,784</u>	<u>1,425,286</u>
<b>Total assets</b>	<b><u>\$ 2,632,657</u></b>	<b><u>\$ 2,134,462</u></b>
Current liabilities	\$ 166,515	\$ 172,493
Long-term debt, net of current maturities	928,235	1,030,469
Other liabilities	<u>70,692</u>	<u>64,557</u>
<b>Total liabilities</b>	<b><u>1,165,442</u></b>	<b><u>1,267,519</u></b>
<b>Net position</b>		
Net investment in capital assets	903,273	297,456
Restricted - expendable	270,237	116,292
Unrestricted	<u>293,705</u>	<u>453,195</u>
<b>Total net position</b>	<b><u>1,467,215</u></b>	<b><u>866,943</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 2,632,657</u></b>	<b><u>\$ 2,134,462</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 \$600,272 in 2023 and increased by \$243,859 in 2022. The changes are made up of very different components, as shown in Table 2, which follows:

<b>Table 2</b>		
<b>Operating Results and Changes in Net Position</b>		
	<b>Years Ended December 31,</b>	
	<b><u>2023</u></b>	<b><u>2022</u></b>
<b>Operating revenues</b>		
Water and sewer revenue	\$ 952,570	\$ 944,388
Hook up and reconnection fees	5,000	6,000
Other revenue	55,477	60,652
Total operating revenues	<u>1,013,047</u>	<u>1,011,040</u>
<b>Operating expenses</b>		
Water purchased	243,291	212,330
Salaries	156,005	148,898
Employee benefits	16,261	13,964
Payroll taxes	13,301	12,690
Chemicals and supplies	36,511	9,039
Repairs	36,615	8,462
Truck expense	13,786	12,457
Utilities and telephone	30,691	30,668
Laboratory fees	1,355	1,848
Insurance	3,376	3,043
Office supplies and postage	15,790	17,531
Professional fees	30,135	14,573
Miscellaneous	5,272	4,646
Contract labor	55,500	78,116
Bad debt	-	953
Equipment expense	5,267	15,576
Tools	3,144	2,101
Depreciation and amortization	133,515	120,664
Total operating expenses	<u>799,814</u>	<u>707,559</u>
Operating income	213,233	303,481
Nonoperating revenues (expenses)	(50,684)	(59,622)
Capital Contributions	<u>437,723</u>	<u>-</u>
Increase in net position	600,272	243,859
Net position - beginning of year	<u>866,943</u>	<u>623,084</u>
<b>Net position - end of year</b>	<b><u>\$ 1,467,215</u></b>	<b><u>\$ 866,943</u></b>



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

The Water and Sewer System's total operating revenues increased by \$2,007 from \$1,011,040 in 2022 to \$1,013,047 in 2023. Total operating expenses increased by \$92,255 from \$707,559 in 2022 to \$799,814 in 2023.

## ***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 \$4,765 and \$475 in 2023 and 2022, respectively. Interest expense was \$55,449 and \$60,097 in 2023 and 2022, respectively. During 2023, the City of Judsonia, Arkansas paid for \$437,723 of the sewer station addition. This was recognized as capital asset contributions.

## **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, 2023 and 2022, the Water and Sewer System had \$1,933,784 and \$1,452,286, 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 \$642,013 in 2023, as compared to \$69,614 in 2022. The City of Judsonia paid \$437,723 on capital asset purchases in 2023 compared to \$0 in 2022.

### ***Debt***

In 1988 and 1995, the Water and Sewer 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, 2023 and December 31, 2022, notes payable were \$1,008,952 and \$1,096,807, respectively.

In 2021, the system received a loan from First Security Bank. The proceeds were used to purchase a vehicle. As of December 31, 2023 and 2022, notes payable were \$21,559 and \$31,034, respectively.

At December 31, 2023, the Water and Sewer System had \$1,030,511 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>2023</u></b>	<b><u>2022</u></b>
<b>Notes payable</b>		
Current	\$ 102,276	\$ 97,361
Long-term	928,235	1,030,469
Total	<u>1,030,511</u>	<u>1,127,830</u>
<b>Total debt</b>	<b><u>\$ 1,030,511</u></b>	<b><u>\$ 1,127,830</u></b>

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

This financial report is designed to provide our citizens, taxpayers, customers, 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, 2023**

<u><b>Assets</b></u>	
<b>Current assets</b>	
Cash and cash equivalents - Notes 1 and 2	\$ 284,525
Accounts receivable, net of allowance - Note 3	86,471
Accrued interest receivable	273
Prepaid expenses	2,107
Inventory - Note 1	55,160
<b>Total current assets</b>	<u>428,536</u>
<b>Noncurrent assets</b>	
Meter deposit fund - cash and cash equivalents	77,749
Debt service fund - cash and cash equivalents	192,488
<b>Total noncurrent assets</b>	<u>270,237</u>
<b>Capital assets</b> - net of accumulated depreciation - Notes 1 and 4	1,933,784
<b>Utility deposit</b>	<u>100</u>
<b>Total assets</b>	<u><u><b>\$ 2,632,657</b></u></u>
<u><b>Liabilities and Net Position</b></u>	
<b>Current liabilities</b>	
Accounts payable	\$ 26,042
Payable to other funds - City of Judsonia	19,968
Accrued expenses	18,229
Current portion of long-term debt - Note 5	102,276
<b>Total current liabilities</b>	<u>166,515</u>
<b>Other liabilities</b>	
Meter deposits	70,692
<b>Total other liabilities payable from restricted assets</b>	<u>70,692</u>
<b>Noncurrent liabilities</b>	
Long-term debt, net of current portion - Note 5	928,235
<b>Total noncurrent liabilities</b>	<u>928,235</u>
<b>Total liabilities</b>	<u>1,165,442</u>
<b>Net position</b>	
Net investment in capital assets	903,273
Restricted expendable:	
Debt service	192,488
Meter deposits	77,749
Unrestricted	293,705
<b>Total net position</b>	<u>1,467,215</u>
<b>Total liabilities and net position</b>	<u><u><b>\$ 2,632,657</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**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2023**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating revenues</b>			
Service revenue	\$ 748,300	\$ 204,270	\$ 952,570
Hook-up and reconnection fees	4,000	1,000	5,000
Other revenue	44,192	11,285	55,477
<b>Total operating revenues</b>	<u>796,492</u>	<u>216,555</u>	<u>1,013,047</u>
<b>Cost of goods sold</b>			
Water purchased	<u>243,291</u>	<u>-</u>	<u>243,291</u>
<b>Gross profit</b>	<u>553,201</u>	<u>216,555</u>	<u>769,756</u>
<b>Operating expenses</b>			
Salaries	78,003	78,002	156,005
Employee benefits	8,131	8,130	16,261
Payroll taxes	6,650	6,651	13,301
Chemicals and supplies	25,489	11,022	36,511
Repairs	28,427	8,188	36,615
Truck expense	6,893	6,893	13,786
Utilities and telephone	15,346	15,345	30,691
Laboratory fees	1,355	-	1,355
Insurance	1,688	1,688	3,376
Office supplies and postage	7,895	7,895	15,790
Professional fees	15,067	15,068	30,135
Miscellaneous	2,636	2,636	5,272
Contract labor	27,750	27,750	55,500
Equipment expense	5,267	-	5,267
Tools	1,572	1,572	3,144
Depreciation and amortization	66,758	66,757	133,515
<b>Total operating expenses</b>	<u>298,926</u>	<u>257,597</u>	<u>556,523</u>
<b>Operating income</b>	<u>254,275</u>	<u>(41,042)</u>	<u>213,233</u>
<b>Nonoperating revenues (expenses)</b>			
Interest income	4,765	-	4,765
Interest expense	(55,449)	-	(55,449)
<b>Total nonoperating revenues (expenses)</b>	<u>(50,684)</u>	<u>-</u>	<u>(50,684)</u>
Capital asset contributions	<u>-</u>	<u>437,723</u>	<u>437,723</u>
<b>Change in net position</b>	<u>\$ 203,591</u>	<u>\$ (41,042)</u>	<u>600,272</u>
<b>Net position - beginning of year</b>			<u>866,943</u>
<b>Net position - end of year</b>			<u>\$ 1,467,215</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, 2023**

	<u>2023</u>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,256,670
Payments to suppliers	(324,307)
Payments to employees	(185,567)
Other receipts (payments)	(355,696)
<b>Net cash provided by operating activities</b>	<u>391,100</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchase of capital assets	(204,290)
Principal payments on long-term debt	(97,319)
Interest payments on long-term debt	(55,449)
<b>Net cash (used in) capital and related financing activities</b>	<u>(357,058)</u>
<b>Cash flows from investing activities:</b>	
Interest income	4,765
<b>Net cash provided by investing activities</b>	<u>4,765</u>
<b>Net increase in cash and cash equivalents</b>	38,807
<b>Cash and cash equivalents - beginning of year</b>	<u>515,955</u>
<b>Cash and cash equivalents - end of year</b>	<u><u>\$ 554,762</u></u>
<b>Reconciliation of total cash and cash equivalents</b>	
Current assets - cash and cash equivalents	\$ 284,525
Noncurrent assets - cash and cash equivalents	<u>270,237</u>
<b>Total cash and cash equivalents</b>	<u><u>\$ 554,762</u></u>
<b><u>Supplemental information</u></b>	
Interest paid	<u><u>\$ 55,449</u></u>
<b><u>Non-Cash Transactions</u></b>	
Capital contributions	<u><u>\$ 437,723</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, 2023**

	<u><b>2023</b></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 213,233
<b>Adjustments to reconcile operating income to net cash flows provided by operating activities:</b>	
Depreciation and amortization	133,515
<b>Net changes in:</b>	
Accounts receivable	29,226
Inventory	19,884
Accounts payable	(12,769)
Accrued expenses	1,876
Meter deposits	<u>6,135</u>
<b>Net cash provided by operating activities</b>	<u><u><b>\$ 391,100</b></u></u>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 1 – Summary of Significant Accounting Policies**

***Financial 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 funds, accounts, and balances, 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 using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

***Use of Estimates***

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

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and certificates of deposit with an original maturity of three months or less.

***Accounts Receivable***

The Water and Sewer System grants credit to residents for water and sewer sales. The collectability of the Water and Sewer System's receivables is dependent upon the residents' ability to honor their obligations for their water and sewer bills. Accounts receivable are carried on the statement of net position 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 uncollectible accounts totaled \$10,917 at December 31, 2023. The Water and Sewer System had no bad debt expense for the year ended December 31, 2023.

***Prepaid Expenses***

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

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 1 – 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 \$1,000 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 recorded at their estimated fair value at the time of donation.

GASB 89 requires expensing of interest during construction.

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 classifications are defined as follows:

*Net investment in capital assets* – this component of net position consists of capital assets, including any restricted 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted:

*Restricted expendable net position* – this component of net position consists of constraints placed on net position through external constraints imposed by creditors (Such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Restricted nonexpendable net position* – this component of net position is noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Water and Sewer System such as permanent endowments.

*Unrestricted net position* – this component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets”, as defined above.

***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.



**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 1 – Summary of Significant Accounting Policies (Cont.)**

***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.

**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, 2023, the Water and Sewer System's carrying amount of deposits was \$554,762. The bank balance was \$557,738. Of this balance, \$345,930 was covered by FDIC insurance and the remaining was covered by pledged securities.

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

**Notes to Financial Statements**

**December 31, 2023**

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

*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.

The carrying amounts of deposits are included in the Water and Sewer System's statement of net position as follows:

	<u><b>2023</b></u>
Deposits	\$ 554,762
<b>Total</b>	<u><b>\$ 554,762</b></u>
Included in the following statement of net position captions:	
Cash and cash equivalents	\$ 284,525
Noncurrent cash and cash equivalents	<u>270,237</u>
<b>Total</b>	<u><b>\$ 554,762</b></u>

Interest income for cash equivalents is comprised of the following for the year ended December 31, 2023:

	<u><b>2023</b></u>
Interest income	<u><b>\$ 4,765</b></u>

**Note 3 – Accounts Receivable**

Accounts receivable consists of the following at December 31, 2023:

	<u><b>2023</b></u>
Accounts receivable	\$ 97,388
Allowance for doubtful accounts	<u>(10,917)</u>
<b>Accounts receivable - net of allowance for uncollectible accounts</b>	<u><b>\$ 86,471</b></u>

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 4 – Capital Assets and Depreciation**

Capital asset additions, retirements and balances for the year ended December 31, 2023, were as follows:

	Balance December 31, <u>2022</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2023</u>
<b>Capital assets being depreciated:</b>				
Equipment	\$ 685,384	\$ 68,379	\$ -	\$ 753,763
Vehicles	98,082	-	-	98,082
Water and sewer system	3,788,417	550,202	-	4,338,619
Buildings	48,846	-	-	48,846
Total capital assets	4,620,729	618,581	-	5,239,310
Less accumulated depreciation	(3,351,633)	(133,515)	-	(3,485,148)
Total capital assets being depreciated, net	1,269,096	485,066	-	1,754,162
<b>Capital assets not being depreciated:</b>				
Land	133,387	-	-	133,387
Construction in progress	22,803	23,432	-	46,235
Total capital assets not being depreciated	156,190	23,432	-	179,622
<b>Capital assets, net</b>	<b>\$ 1,425,286</b>	<b>\$ 508,498</b>	<b>\$ -</b>	<b>\$ 1,933,784</b>

**Note 5 – Long-Term Debt**

A schedule of changes in the Water and Sewer System's long-term debt for December 31, 2023, follows:

	Balance at December 31, <u>2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2023</u>	Amount Due Within <u>One Year</u>
<b>Long-term debt:</b>					
USDA - 91-05 (A)	\$ 903,385	\$ -	\$ (52,946)	\$ 850,439	\$ 55,502
USDA - 92-03 (B)	193,422	-	(34,909)	158,513	36,658
First Security Bank (C)	31,023	-	(9,464)	21,559	10,116
<b>Total long-term debt</b>	<b>\$ 1,127,830</b>	<b>\$ -</b>	<b>\$ (97,319)</b>	<b>\$ 1,030,511</b>	<b>\$ 102,276</b>

The terms and due dates of the Water and Sewer System's long-term debt at December 31, 2023, follows:

- 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%.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 5 – Long-Term Debt (Cont.)**

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>
2024	\$ 102,276	50,493	\$ 152,769
2025	107,736	45,032	152,768
2026	102,967	39,649	142,616
2027	107,623	34,327	141,950
2028	68,186	29,830	98,016
2029-2033	310,870	81,194	392,064
2034-2038	230,853	15,730	246,583
<b>Total</b>	<b>\$ 1,030,511</b>	<b>\$ 296,255</b>	<b>\$ 1,326,766</b>

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>12/31/2023 Balance</u>	<u>Over/(Under) Funded</u>
<b>USDA, Rural Development:</b>			
RECDS - 1988 Loan	\$ 43,800	\$ 43,938	\$ 138
RECDS - 1995 Loan	98,016	102,009	3,993
<b>Totals</b>	<b>\$ 141,816</b>	<b>\$ 145,947</b>	<b>\$ 4,131</b>

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.

**Note 6 – Compensated Absences**

It is the Water and Sewer System's policy to accumulate earned but unused vacation benefits, but 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.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 7 – Risk Management (Cont.)**

The Water and Sewer 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 Water and Sewer 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 Water and Sewer 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 Water and Sewer 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. \$31,858 for services related to water and sewer system repairs and maintenance. Spurlock, Inc. is owned by Commission member Mitchell Spurlock.

**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.

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Notes to Financial Statements**  
**December 31, 2023**

**Note 10 – Subsequent Events**

Management has evaluated subsequent events through December 18, 2024, 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.

**SUPPLEMENTARY INFORMATION**

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Supplemental Schedule of Users and Consumption**  
**Year Ended December 31, 2023**

<u>Month</u>	<u>Consumption</u>	<u>Active Users</u>
January	5,769,800	1,249
February	4,708,500	1,250
March	4,277,900	1,249
April	4,684,000	1,250
May	4,381,900	1,245
June	5,345,000	1,246
July	5,192,700	1,247
August	4,992,500	1,250
September	5,571,600	1,257
October	5,217,000	1,259
November	4,824,500	1,259
December	4,446,100	1,254
<b>Total consumption</b>	<b><u>59,411,500</u></b>	
<b>Monthly averages</b>	<b><u>4,950,958</u></b>	<b><u>1,251</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, 2023**

- A)**     Insurance Carrier:        Arkansas Municipal League
- Period Covered:         10/12/2023 - 10/11/2024
- Coverage:                Buildings and Contents
- Coverage Amount:       \$400,985
- 
- B)**     Insurance Carrier:        Arkansas Municipal League
- Period Covered:         9/01/2023 - 9/01/2024
- Coverage:                Vehicles and Equipment
- Coverage Amount:       \$75,136
- 
- C)**     Insurance Carrier:        Arkansas Municipal League
- Period Covered:         1/01/2023 - 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, 2023**

December 31, 2023

**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 Schedule of City Commission Members**  
**Year Ended December 31, 2023**

**For the year ended December 31, 2023:**

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

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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 the business-type activities of Judsonia Water and Sewer System, a proprietary fund of the City of Judsonia, Arkansas, as of and for the year ended December 31, 2023, 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 December 18, 2024.

#### Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and management responses as items # 2023-01 and # 2023-02, that we consider to be significant deficiencies.

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

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

## **Report on 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 financial statements. 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on Judsonia Water and Sewer System's response to the findings identified in our audit are described in the accompanying schedule of findings and management's responses. Judsonia Water and Sewer System's 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 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  
December 18, 2024

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Schedule of Findings and Management Responses**  
**December 31, 2023**

**Financial Statement Findings**

***Significant Deficiencies***

**2023-01 – 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:** there are a small number of people responsible for the financial transactions of the Water and Sewer System.

**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.

**2023-02 – 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 Water and Sewer System uses the cash basis for interim purposes because it is less burdensome.

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

**JUDSONIA WATER AND SEWER SYSTEM**  
**A Proprietary Fund of the City of Judsonia, Arkansas**  
**Schedule of Findings and Management Responses (Cont.)**  
**December 31, 2023**

**Financial Statement Findings (Cont.)**

***Significant Deficiencies (Cont.)***

**2023-02 – Financial Reporting (Cont.)**

***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 accounting principles generally accepted in the United States of America 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.