

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

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

December 31, 2021

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

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-9
Financial Statements	
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
Supplementary Information	
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
Other Required Reports	
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

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, 2021, and the related notes to the financial statements, which collectively comprise 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 net position of Judsonia Water and Sewer System, a proprietary fund of the City of Judsonia, Arkansas, as of December 31, 2021, and the respective changes in net position and, cash flows thereof for the years 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, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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

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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other 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 other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other 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 January 10, 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
Certified Public Accountants

Batesville, Arkansas
January 10, 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, 2021 and 2020. 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 \$118,758 from \$504,326 in 2020 to \$623,084 in 2021 as a result of this year's operations. The Water and Sewer System's net position decreased by \$(17,723) from \$522,049 in 2019 to \$504,326 in 2020 as a result of prior year's operations.
- The Water and Sewer System's operating revenue exceeded operating expense by \$179,809 for the year ended December 31, 2021, and operating revenue exceeded operating expense by \$45,736 for the year ended December 31, 2020.
- Cash and cash equivalents increased by \$109,328 and decreased by \$(27,674) for the years ended December 31, 2021 and 2020, 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 2021 by \$118,758, and decreased during 2020 by \$(17,723).

Table 1 below details the various elements of the statement of net position for December 31, 2021 and 2020:

Table 1		
Assets, Liabilities and Net Position		
	December 31,	
	<u>2021</u>	<u>2020</u>
Total current assets	\$ 276,566	\$ 165,416
Noncurrent assets	197,786	184,599
Capital assets - net	<u>1,476,336</u>	<u>1,506,961</u>
Total assets	<u>1,950,688</u>	<u>1,856,976</u>
Current liabilities	\$ 141,688	\$ 117,266
Long-term debt, net of current maturities	1,127,950	1,180,447
Other liabilities	<u>57,966</u>	<u>54,937</u>
Total liabilities	<u>1,327,604</u>	<u>1,352,650</u>
Net position		
Net investment in capital assets	\$ 255,835	\$ 247,246
Restricted	197,686	184,499
Unrestricted	<u>169,563</u>	<u>72,581</u>
Total net position	<u>623,084</u>	<u>504,326</u>
Total liabilities and net position	<u>\$ 1,950,688</u>	<u>\$ 1,856,976</u>

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

The Water and Sewer System's net position increased by \$118,758 in 2021 and decreased by \$(17,723) in 2020. The changes are made up of very different components, as shown in Table 2, which follows:

Table 2		
Operating Results and Changes in Net Position		
	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
Operating revenues		
Water & Sewer Revenue	\$ 821,579	\$ 725,398
Hook up and reconnection fees	11,000	3,700
Other revenue	37,671	45,124
Total operating revenues	<u>870,250</u>	<u>774,222</u>
Operating expenses		
Water purchased	207,200	238,160
Salaries	167,972	133,234
Employee Benefits	16,112	17,456
Payroll taxes	15,796	13,667
Chemicals and supplies	8,800	13,625
Repairs	27,198	39,860
Truck expense	14,846	15,250
Utilities and telephone	31,974	31,591
Laboratory fees	1,795	2,470
Insurance	3,818	2,697
Office supplies and postage	19,178	12,697
Professional fees	8,126	5,624
Miscellaneous	5,381	5,273
Contract labor	36,335	75,807
Bad debt	1,868	8,096
Equipment expense	628	2,860
Tools	4,534	3,572
Depreciation and amortization	118,880	106,547
Total operating expenses	<u>690,441</u>	<u>728,486</u>
Operating income (loss)	179,809	45,736
Nonoperating revenues (expenses)	<u>(61,051)</u>	<u>(63,459)</u>
Increase (decrease) in net position	<u>118,758</u>	<u>(17,723)</u>
Net position - beginning of year	<u>504,326</u>	<u>522,049</u>
Net position - end of year	<u><u>\$ 623,084</u></u>	<u><u>\$ 504,326</u></u>

Operating Revenues and Expenses

The Water and Sewer System's total operating revenues increased by \$96,028 from \$774,222 in 2020 to \$870,250 in 2021. Total operating expenses decreased by \$(38,045) from \$728,486 in 2020 to \$690,441 in 2021.

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 \$455 and \$2,874 in 2021 and 2020, respectively. Interest expense was \$64,506 and \$66,333 in 2021 and 2020, respectively. Also, in 2021, there was a gain of \$3,000 on the sale of equipment.

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, 2021 and 2020, the Water and Sewer System had \$1,476,336 and \$1,506,961, 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 \$88,255 in 2021, as compared to \$40,142 in 2020.

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, 2021 and December 31, 2020, notes payable were \$1,180,322 and \$1,259,715, respectively.

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

At December 31, 2021, the Water and Sewer System had \$1,220,501 in outstanding debt, as shown in Table 3, which follows:

Table 3 Outstanding Debt at Year End		
	Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
Notes payable		
Long-term	\$ 1,127,950	\$ 1,180,447
Current	92,551	79,268
Total	<u>1,220,501</u>	<u>1,259,715</u>
Total debt	<u>\$ 1,220,501</u>	<u>\$ 1,259,715</u>

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, 2021

Current assets

Cash and cash equivalents - Notes 1 and 2	\$ 125,455
Accounts receivable, net of allowance - Note 3	107,625
Prepaid expenses	2,107
Inventory - Note 1	41,379
Total current assets	<u>276,566</u>

Noncurrent assets

Meter deposit fund - cash and cash equivalents	65,213
Debt service fund - cash and cash equivalents	132,473
Total noncurrent assets	<u>197,686</u>

Capital assets - net of accumulated depreciation - Notes 1 and 4	<u>1,476,336</u>
---	------------------

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

Total assets	<u><u>\$ 1,950,688</u></u>
---------------------	----------------------------

Liabilities and Net Position

Current liabilities

Accounts payable	\$ 13,605
Interfund payable - City of Judsonia	19,615
Accrued expenses	15,917
Current portion of long-term debt - Note 5	92,551
Total current liabilities	<u>141,688</u>

Noncurrent liabilities

Long-Term Debt, net of current portion - Note 5	1,127,950
Total noncurrent liabilities	<u>1,127,950</u>

Other liabilities

Meter Deposits	<u>57,966</u>
----------------	---------------

Total liabilities	<u>1,327,604</u>
--------------------------	------------------

Net position

Net investment in capital assets	255,835
Restricted for:	
Debt Service	132,473
Meter Deposit	65,213
Unrestricted	169,563
Total net position	<u>623,084</u>

Total liabilities and net position	<u><u>\$ 1,950,688</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, 2021

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues			
Service revenue	\$ 624,400	\$ 197,179	\$ 821,579
Hook-up and reconnection fees	6,800	4,200	11,000
Other revenue	28,926	8,745	37,671
Total operating revenues	<u>660,126</u>	<u>210,124</u>	<u>870,250</u>
Cost of goods sold			
Water purchased	<u>207,200</u>	<u>-</u>	<u>207,200</u>
Gross profit	<u>452,926</u>	<u>210,124</u>	<u>663,050</u>
Operating expenses			
Salaries	83,986	83,986	167,972
Employee Benefits	8,056	8,056	16,112
Payroll taxes	7,898	7,898	15,796
Chemicals and supplies	8,800	-	8,800
Repairs	19,812	7,386	27,198
Truck expense	7,423	7,423	14,846
Utilities and telephone	15,987	15,987	31,974
Laboratory fees	1,795	-	1,795
Insurance	1,909	1,909	3,818
Office supplies and postage	9,589	9,589	19,178
Professional fees	4,063	4,063	8,126
Miscellaneous	5,381	-	5,381
Contract labor	18,168	18,167	36,335
Bad debt	1,307	561	1,868
Equipment expense	628	-	628
Tools	2,267	2,267	4,534
Depreciation and amortization	59,440	59,440	118,880
Total operating expenses	<u>256,509</u>	<u>226,732</u>	<u>483,241</u>
Operating income	<u>196,417</u>	<u>(16,608)</u>	<u>179,809</u>
Nonoperating revenues (expenses)			
Interest income	455	-	455
Interest expense	(52,314)	(12,192)	(64,506)
Gain/Loss of sale of equipment	3,000	-	3,000
Total nonoperating revenues (expenses)	<u>(48,859)</u>	<u>(12,192)</u>	<u>(61,051)</u>
Change in net position	<u>147,558</u>	<u>(28,800)</u>	<u>118,758</u>
Net position - beginning of year			<u>504,326</u>
Net position - end of year			<u>623,084</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, 2021

Cash flows from operating activities:

Receipts from customers	\$ 835,312
Payments to suppliers	(398,620)
Payments to employees	(164,357)
Other receipts (payments)	28,513
Net cash provided by operating activities	300,848

Cash flows from capital and related financing activities:

Purchase of capital assets	(88,255)
Proceeds from issuance of debt	48,135
Principal payments on long-term debt	(87,349)
Interest payments on long-term debt	(64,506)
Net cash (used in) capital and related financing activities	(191,975)

Cash flows from investing activities:

Interest income	455
Net cash provided by investing activities	455

Net increase in cash and cash equivalents	109,328
--	----------------

Cash and cash equivalents - beginning of year	213,813
--	----------------

Cash and cash equivalents - end of year	\$ 323,141
--	-------------------

Reconciliation of total cash and cash equivalents

Current assets - cash and cash equivalents	\$ 125,455
Noncurrent assets - cash and cash equivalents	197,686

Total cash and cash equivalents	\$ 323,141
--	-------------------

Supplemental information

Interest paid	\$ 64,506
---------------	-----------

(Continued)

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 (Cont.)
For the Year Ended December 31, 2021

	<u>2021</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 179,809
Adjustments to reconcile operating income (loss) to net cash flows provided by operating activities:	
Depreciation and amortization	118,880
Provision for bad debts	1,868
Gain/loss on sale of equipment	3,000
Net changes in:	
Accounts receivable	(16,877)
Inventory	9,360
Accrued expenses	1,778
Meter deposits	3,030
	<hr/>
Net cash provided by operating activities	<u>\$ 300,848</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, 2021

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 \$9,964 and \$8,096 at December 31, 2021 and 2020, respectively. The Water and Sewer System had bad debt expense totaling \$1,868 and \$8,096 for the periods ended December 31, 2021 or 2020, 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, 2021

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, 2021

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, 2021

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 2020 financial statements to conform to the 2021 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, 2021, the Water and Sewer System's carrying amount of deposits was \$323,141. The bank balance of \$324,948 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, 2021

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>2021</u>
Deposits	\$ 323,141
Total	<u>\$ 323,141</u>

	<u>2021</u>
Included in the following balance sheet captions:	
Cash and cash equivalents	\$ 125,455
Noncurrent cash and cash equivalents	<u>197,686</u>
Total	<u>\$ 323,141</u>

Interest income for cash equivalents is comprised of the following for the years ended December 31, 2021:

	<u>2021</u>
Interest income	<u>\$ 455</u>

Note 3 – Accounts Receivable

Accounts receivable consists of the following at December 31, 2021:

	<u>2021</u>
Accounts receivable	\$ 117,589
Allowance for doubtful accounts	<u>(9,964)</u>
Accounts receivable - net of allowance for doubtful accounts	<u>\$ 107,625</u>

JUDSONIA WATER AND SEWER SYSTEM
A Proprietary Fund of the City of Judsonia, Arkansas
Notes to Financial Statements
December 31, 2021

Note 4- Capital Assets and Depreciation

Capital asset additions, retirements and balances for the years ended December 31, 2021 were as follows:

	Balance December 31, <u>2020</u>	<u>Additions</u>	<u>Retirements</u>	Balance December 31, <u>2021</u>
Land	\$ 134,137	\$ -	\$ -	\$ 134,137
Equipment	578,086	40,119	-	618,205
Vehicles	76,640	48,136	(26,694)	98,082
Water & Sewer System	3,808,035	-	-	3,808,035
Buildings	48,846	-	-	48,846
Totals at historical cost	<u>4,645,744</u>	<u>88,255</u>	<u>(26,694)</u>	<u>4,707,305</u>
Less accumulated depreciation	<u>(3,138,783)</u>	<u>(118,880)</u>	<u>26,694</u>	<u>(3,230,969)</u>
Capital assets, net	<u>\$ 1,506,961</u>	<u>\$ (30,625)</u>	<u>\$ -</u>	<u>\$ 1,476,336</u>

Note 5 – Long-Term Debt

A schedule of changes in the Water and Sewer System's long-term debt for December 31, 2021 follows:

	Balance at December 31, <u>2020</u>	<u>Additions</u>	<u>Reductions</u>	Balance at December 31, <u>2021</u>	Amount Due Within <u>One Year</u>
Long-term debt:					
USDA - 91-05 (A)	\$ 1,001,488	\$ -	\$ (47,797)	\$ 953,691	\$ 50,206
USDA - 92-03 (B)	258,227	-	(31,596)	226,631	33,189
First Security Bank (C)	<u>-</u>	<u>48,286</u>	<u>(8,107)</u>	<u>40,179</u>	<u>9,156</u>
Total long-term debt	<u>\$ 1,259,715</u>	<u>\$ 48,286</u>	<u>\$ (87,500)</u>	<u>\$ 1,220,501</u>	<u>\$ 92,551</u>

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

Notes to Financial Statements

December 31, 2021

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, 2021, 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>
2022	\$ 92,551	\$ 60,218	\$ 152,769
2023	97,361	55,408	152,769
2024	102,275	50,493	152,768
2025	107,736	45,032	152,768
2026	102,807	39,649	142,456
2027 - 2031	486,718	145,263	631,981
2032 - 2036	231,053	15,730	246,783
Total	\$ 1,220,501	\$ 411,793	\$ 1,632,294

- 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 \$913.71 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>12/31/2021 Balance</u>	<u>Over/(Under) Funded</u>
USDA, Rural Development:			
RECDS - 1988 Loan	43,800	43,938	138
RECDS - 1995 Loan	98,016	88,535	(9,481)
Totals	<u>141,816</u>	<u>132,473</u>	<u>(9,343)</u>

JUDSONIA WATER AND SEWER SYSTEM
A Proprietary Fund of the City of Judsonia, Arkansas
Notes to Financial Statements
December 31, 2021

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. \$27,405 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, 2021

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.

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, 2021

<u>Month</u>	<u>Consumption</u>	<u>Active Users</u>
January	4,469,100	1,232
February	6,625,200	1,241
March	3,837,100	1,241
April	4,380,300	1,239
May	6,297,700	1,250
June	4,463,700	1,246
July	5,769,300	1,247
August	6,099,100	1,239
September	5,629,500	1,247
October	4,840,600	1,246
November	4,275,700	1,251
December	4,292,700	1,249
Total consumption	<u>60,980,000</u>	
Monthly averages	<u>5,081,667</u>	<u>1,244</u>

JUDSONIA WATER AND SEWER SYSTEM
A Proprietary Fund of the City of Judsonia, Arkansas
Supplemental Schedule of Insurance in Force
Year Ended December 31, 2021

- A)** Insurance Carrier: Arkansas Municipal League
- Period Covered: 9/01/2021 - 9/01/2022
Coverage: Buildings and Contents
Coverage Amount: \$390,825
- B)** Insurance Carrier: Arkansas Municipal League
- Period Covered: 9/01/2021 - 9/01/2022
Coverage: Vehicles and Equipment
Coverage Amount: \$75,136
- C)** Insurance Carrier: Arkansas Municipal League
- Period Covered: 1/01/2021 - 12/31/2022
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, 2021

December 31, 2021

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, 2021

For the year ended December 31, 2021:

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

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, 2021, 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 January 10, 2022.

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, # 2022-02, and # 2022-03 that we consider to be significant deficiencies.

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
Certified Public Accountants

Batesville, Arkansas
January 10, 2022

JUDSONIA WATER AND SEWER SYSTEM
A Proprietary Fund of the City of Judsonia, Arkansas
Schedule of Findings and Management Responses
December 31, 2021

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, 2021

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.

2022-03 – Account Adjustments

Condition: Our review of the Water and Sewer System's internal control structure disclosed that unapproved adjustments were being made to accounts and there was no oversight that allowed for the adjustments to be made.

Criteria: Internal controls should be in place to eliminate any unapproved adjustments being made to any water and sewer accounts.

Cause: The system doesn't have a process in place for verification or approval of water and sewer account adjustments to be made.

Effect: Inadequate supervision of employees could allow for theft, fraud, or other erroneous adjustments to be made.

Recommendation: Board should review office personnel adjustments and approve monthly.

Management Response: Management concurs with the finding and understands that there is a need for better controls. The Judsonia Water and Sewer System Commission has already limited access to the RVS system to two employees that require access and are now required to initial and provide an explanation for the adjustments being made.