

JUDSONIA WATER AND SEWER SYSTEM

AUDITED FINANCIAL STATEMENTS

For the Years Ended
December 31, 2019 and 2018

T A B L E O F C O N T E N T S

| | Page |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Management's Discussion and Analysis. | 1-3 |
| Independent Auditor's Report | 4-5 |
| Statements of Net Assets | 6 |
| Statements of Revenues, Expenses and Changes in Net Assets. | 7 |
| Statements of Changes in Fund Balance | 8 |
| Statements of Cash Flows | 9 |
| Notes to Financial Statements | 10-15 |
| 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> | 16-17 |

Judsonia Water and Sewer System

Management's Discussion and Analysis

Our discussion and analysis of Judsonia Water and Sewer System (the System) financial performance provides an overview of the System's financial activities for the year ended December 31, 2019. This overview should be read in conjunction with the System's financial statements, which begin on page 6.

Using The Annual Audit Report

This annual audit report consists of a series of financial statements and footnotes. The financial statements (on pages 6-9) provide information about the financial activities of the Board. The footnotes (on pages 10-15) provide additional narrative concerning selected financial statement items.

Financial Highlights

| | 2019 | 2018 |
|-------------------------------------------------|--------------|--------------|
| Total assets | \$ 1,953,322 | \$ 2,145,468 |
| Total long-term liabilities | 1,259,713 | 1,335,193 |
| Total liabilities | 1,431,273 | 1,492,748 |
| Net assets | | |
| Invested in capital assets, net of related debt | 238,181 | 267,074 |
| Restricted | 122,007 | 118,004 |
| Unrestricted | 161,861 | 267,642 |
| Total net assets | 522,049 | 652,720 |
| Total operating revenues | 752,255 | 758,913 |
| Total operating expenses/water purchased | 817,929 | 698,612 |
| Total other revenues (expenses) | (64,997) | (70,353) |
| Change in net assets | (130,671) | (10,052) |
| Net assets, end of year | \$ 522,049 | \$ 652,720 |

Balance Sheet

Financial ratios are used to analyze relationships between different pieces of financial information. Ratio analysis can present information about an entity's operating performance and financial position. Short-term liquidity can be demonstrated using the Current Ratio and Quick Ratio. The Current Ratio is calculated by dividing Current Assets by Current Liabilities. The Quick Ratio is similar to the Current Ratio but excludes inventory because inventory is normally the least liquid current asset. A number greater than one indicates current assets in excess of current needs that can be applied to future periods. The Current and Quick Ratios for the year ended December 31, 2019 were 2.12 and 1.80, respectively. This means that for every \$2.12 in current assets, the Board has \$1.00 in current liabilities. By excluding inventory, the ratio becomes \$1.80 in current assets for every \$1.00 in current liabilities. The Current and Quick ratios for the year ended December 31, 2018 were 3.25 and 3.01, respectively.

Working capital, like the Current Ratio, represents the excess of Current Assets over Current Liabilities. Working Capital is expressed in dollars while the Current Ratio is expressed as a ratio. As of December 31, 2019, the Working Capital on hand was \$136,757. As of December 31, 2018, the Working Capital on hand was \$245,915.

Efficiency can also be demonstrated by calculating the average collection period. Receivables Turnover is calculated by dividing Total Operating Revenue by Total Water and Sewer Accounts Receivable. Then we divide 365 days by the Receivables Turnover to arrive at the Average Collection Period of 46.7 days and 45.7 days as of December 31, 2019 and 2018, respectively.

Another important ratio is the Debt Utilization Ratio. The Debt Utilization Ratio is calculated by dividing total debt by total assets and is 68.3% and 65.5% for 2019 and 2018, respectively. This ratio indicates that our total debt is 68.3% of our total assets.

Capital Assets

The accounts of the System are accounted for as an enterprise fund, which is considered a proprietary fund type using the accrual basis of accounting. Depreciation is recorded on all fixed assets. During the year, no changes were made in the method of recording fixed assets, nor were there any changes made to any of the standard service lives of those assets. There were no significant changes in the condition of infrastructure assets. There is no significant difference between the estimated annual amounts to maintain the infrastructure compared to the amounts actually spent.

As further described in NOTE 9 to the financial statements, the System is currently involved in the repair and upgrade of its sewer lines and facilities pursuant to a corrective action plan to comply with an ADEQ consent administrative order. As part of the overall plan of action, the System has outlined items to be completed through 2021 including upgrades and improvements to the System's sewer system.

Long-term Debt

Long-term debt consists of two note payables to the Rural Economic and Community Development Services. Monthly payments, consisting of principal and interest, are \$3,649 and \$8,168. Additional information can be found in the notes to financial statements.

Statement of Revenues and Expenses

Net income(loss) for the year increased from \$(10,052) in 2018 to \$(130,671) in 2019. Gross revenues in 2019 consisted of \$733,884 in water and sewer fees and \$18,371 in other income.

The major expenses in 2019 were water purchases of \$186,438, interest paid on long-term debt of \$69,843, payroll and employee benefits of \$153,768, materials used in maintaining the system of \$70,416, and contract labor of \$177,645.

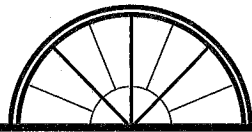
- Total operating revenue decreased .08% from 2018 to 2019, with water and sewer revenue decreasing \$12,842 and connection charges and miscellaneous income increasing \$6,184. Water sales vary year to year depending on the amount of rainfall in a year. In wetter years such as 2019, water sales decrease.

- Water purchases increased .9% or \$1,824. The average use per active meter decreased 172 gallons.
- Operating expenses (excluding depreciation) increased 30.6% from 2018 to 2019 with the largest decreases in supplies and repairs and contract labor.

Typically, the System purchases 100% of its water from the Searcy Water Utilities.

Budget

A budget to actual comparison is not included with the financial statements because the board is not required to submit a formal budget.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Judsonia Water and Sewer System
Judsonia, Arkansas

We have audited the accompanying financial statements of Judsonia Water and Sewer System as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Judsonia Water and Sewer System, as of December 31, 2019 and 2018, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020 on our consideration of Judsonia Water and Sewer System's internal control over financial reporting and 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 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.

Hamilton, Cheng, Spradlin & Mandell, Ltd.

Searcy, Arkansas
December 21, 2020

JUDSONIA WATER AND SEWER SYSTEM
STATEMENTS OF NET ASSETS
As of December 31, 2019 and 2018

| | 2019 | 2018 |
|-------------------------------------------------|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 119,480 | \$ 225,439 |
| Accounts receivable | 96,070 | 95,877 |
| Accrued interest receivable | 273 | 273 |
| Inventories | 39,919 | 29,658 |
| Prepaid insurance | 2,107 | 2,107 |
| TOTAL CURRENT ASSETS | 257,849 | 353,354 |
| SPECIAL RESERVE FUNDS | | |
| Meter deposit fund | 56,918 | 55,245 |
| Debt service fund | 65,089 | 62,759 |
| TOTAL SPECIAL RESERVE FUNDS | 122,007 | 118,004 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Property, plant and equipment | 4,605,602 | 4,597,322 |
| Less accumulated depreciation | (3,032,236) | (2,923,312) |
| TOTAL PROPERTY, PLANT AND EQUIPMENT | 1,573,366 | 1,674,010 |
| UTILITY DEPOSIT | | |
| | 100 | 100 |
| TOTAL ASSETS | \$ 1,953,322 | \$ 2,145,468 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 18,713 | \$ 10,689 |
| Accounts payable - City of Judsonia | 19,599 | 18,230 |
| Accrued interest payable | 3,390 | 3,598 |
| Accrued payroll taxes | 3,918 | 3,177 |
| Current portion of long-term debt | 75,472 | 71,745 |
| TOTAL CURRENT LIABILITIES | 121,092 | 107,439 |
| CUSTOMER METER DEPOSITS | | |
| | 50,468 | 50,116 |
| LONG-TERM DEBT net of current portion | | |
| | 1,259,713 | 1,335,193 |
| TOTAL LIABILITIES | 1,431,273 | 1,492,748 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 238,181 | 267,074 |
| Restricted for: | | |
| Debt service | 65,089 | 62,759 |
| Meter deposit | 56,918 | 55,245 |
| Unrestricted | 161,861 | 267,642 |
| TOTAL NET ASSETS | 522,049 | 652,720 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,953,322 | \$ 2,145,468 |

See accompanying notes to financial statements.

JUDSONIA WATER AND SEWER SYSTEM
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|--------------------------------------|------------|------------|
| OPERATING REVENUE | | |
| Water and sewer revenue | \$ 733,884 | \$ 746,726 |
| Connection charges | - | 750 |
| Other income | 18,371 | 11,437 |
| | 752,255 | 758,913 |
| COST OF WATER SOLD | | |
| Water purchased | 186,438 | 184,614 |
| | 186,438 | 184,614 |
| GROSS PROFIT | 565,817 | 574,299 |
| OPERATING EXPENSES | | |
| Wages | 138,998 | 127,707 |
| Utilities and telephone | 30,618 | 25,133 |
| Chemicals and supplies | 16,262 | 8,085 |
| Repairs | 54,154 | 30,121 |
| Employee benefits | 14,770 | 17,381 |
| Contract labor | 177,645 | 112,788 |
| Office supplies and postage | 14,974 | 17,707 |
| Truck expense | 18,298 | 11,124 |
| Professional fees | 18,233 | 1,295 |
| Insurance | 2,564 | 2,523 |
| Payroll taxes | 15,811 | 12,354 |
| Laboratory fees | 3,308 | 3,743 |
| Employee education | 1,299 | 1,313 |
| Miscellaneous | 4,796 | 6,188 |
| Equipment expense | 6,985 | 17,352 |
| Tools | 3,851 | 5,067 |
| Depreciation | 108,925 | 114,117 |
| | 631,491 | 513,998 |
| OPERATING REVENUE | (65,674) | 60,301 |
| OTHER REVENUE (EXPENSE) | | |
| Interest income | 4,846 | 3,044 |
| Interest expense | (69,843) | (73,397) |
| | (64,997) | (70,353) |
| CHANGE IN NET ASSETS | (130,671) | (10,052) |
| NET ASSETS, BEGINNING OF YEAR | 652,720 | 662,772 |
| | 652,720 | 662,772 |
| NET ASSETS, END OF YEAR | \$ 522,049 | \$ 652,720 |

See accompanying notes to financial statements.

JUDSONIA WATER AND SEWER SYSTEM
 STATEMENTS OF CHANGES IN FUND BALANCE
 For the Years Ended December 31, 2019 and 2018

| | Contributions In Aid Construction | General Fund Balance | Total Fund Balance |
|-----------------------------------------------------------|-----------------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, JANUARY 1, 2018 | \$ 136,542 | \$ 526,230 | \$ 662,772 |
| Change in net assets, 2018 | - | (10,052) | (10,052) |
| Amortization of fixed assets acquired by contributions | (12,412) | 12,412 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, DECEMBER 31, 2018 | 124,130 | 528,590 | 652,720 |
| Change in net assets, 2019 | - | (130,671) | (130,671) |
| Amortization of fixed assets acquired by contributions | (12,412) | 12,412 | - |
| | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, DECEMBER 31, 2019 | <u>\$ 111,718</u> | <u>\$ 410,331</u> | <u>\$ 522,049</u> |

See accompanying notes to financial statements.

JUDSONIA WATER AND SEWER SYSTEM
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---------------------------------------------------------------------------------------------|--------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 752,414 | \$ 757,574 |
| Cash paid to suppliers | (570,342) | (466,325) |
| Cash paid to employees | (138,998) | (127,707) |
| Interest received | 4,846 | 3,044 |
| | <hr/> | <hr/> |
| Net Cash Provided by Operating Activities | 47,920 | 166,586 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Increase) decrease in reserved funds | (4,003) | (1,416) |
| Payments for the purchase of assets | (8,280) | (5,026) |
| | <hr/> | <hr/> |
| Net Cash Provided by (Used in) Investing Activities | (12,283) | (6,442) |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Interest payments on long-term debt | (69,843) | (73,397) |
| Principal payments on long-term debt | (71,753) | (68,209) |
| | <hr/> | <hr/> |
| Net Cash Used in Financing Activities | (141,596) | (141,606) |
| NET INCREASE (DECREASE) IN CASH | | |
| | (105,959) | 18,538 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | |
| | 225,439 | 206,901 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | | |
| | \$ 119,480 | \$ 225,439 |
| | <hr/> <hr/> | <hr/> <hr/> |
| RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Change in net assets | \$ (130,671) | \$ (10,052) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Interest on capital financing activities | 69,843 | 73,397 |
| Increase (decrease) | | |
| Meter deposits | 352 | (228) |
| Depreciation and amortization | 108,924 | 114,118 |
| Net changes in | | |
| Accounts receivable | (193) | (1,112) |
| Inventories | (10,261) | 2,200 |
| Accounts payable | 9,393 | (11,249) |
| Accrued expenses | 533 | (488) |
| | <hr/> | <hr/> |
| Total Adjustments | 178,591 | 176,638 |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 47,920 | \$ 166,586 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Supplemental cash flow disclosures | | |
| Interest paid (net of amount capitalized) | \$ 69,843 | \$ 73,397 |
| | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes to financial statements.

JUDSONIA WATER AND SEWER SYSTEM
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The System is a component unit of the municipality of Judsonia, Arkansas and, accordingly, is exempt from income tax.

The system serves substantially all of the industries and households in the City and some outside the City. No customer is responsible for over 5% of the System's operating revenue. Water is purchased from the Searcy Board of Public Utilities.

Accounting Principles. The System is accounted for as an enterprise fund type. Enterprise funds account for activities that are financed and operated in a manner similar to private business enterprises or for which periodic determination of revenues, expenses, and operating income is desirable. These funds render services to the general public on a user-charge basis. Enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the overall revenues and expenses of the System. In accordance with Governmental Accounting Standards Board Statement number 20, paragraph 6, the System applies the Financial Accounting Standards Board pronouncements issued before November 30, 1989 that do not conflict with or contradict Governmental Accounting Standards Board pronouncements.

Estimates and assumptions are used in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Enterprise funds service delivery levels are determined by the extent of consumer demand. Because enterprise fund revenue and expenses fluctuate with the changing service delivery levels, generally accepted accounting principles do not require the financial statements to include budgetary comparisons. Accordingly, such comparisons have not been included.

Equity. Equity is classified as net assets and is displayed in three components:

Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvements of these assets.

NOTES TO FINANCIAL STATEMENTS - CONT'D.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES - CONT'D

Restricted net assets - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) by Board resolution.

Unrestricted net assets - consists of all other assets that do not meet the definition of "invested in capital assets" or "restricted".

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted funds first, then the unrestricted resources as needed.

Structures and Improvements. Structures and improvements in service are valued at cost of construction. Any additions or extensions are added to the system at cost.

Depreciation Expense. Depreciation of structures, improvements, and additions to the system is charged on a straight-line basis over a period of 40 years. Depreciation of equipment, fixtures, and buildings is charged on a straight-line basis over periods of 5 to 25 years.

Additions installed in place by customers and developers and contributed to the System are valued at an assigned value, substantially the cost in service to the developers and customers. Construction amounts associated with normal hookup fees for new customers are charged to current period expense. When otherwise disposed of, the related carrying value, less any amount realized from disposition is reflected in earnings.

On January 10, 1998, the System discontinued operation of its own water plant and began purchasing water. There are no plans to maintain the plant or to resume its operation in the future. At January 1, 2003, the carrying value of the property was \$114,872. In 2003, the System commissioned an appraisal on the property and on October 14, 2003, received the report which valued the property at \$15,000. Based on this information, the System recognized an impairment loss on the property of \$99,872 in 2003. No depreciation was taken on the water plant in 2019 or 2018, and none will be taken as long as the property remains idle.

Inventory. Inventory consists of expendable material and supplies necessary for maintenance of the System and is recorded at cost.

Cash. Cash consists of demand deposits and certificates of deposit that are readily converted into cash and generally have original maturities of one year or less.

Operating Revenues and Expenses. Operating revenues and expenses are distinguished from other revenue (expense) items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as other revenue (expense), but remain a major component of the overall revenues and expenses of the System.

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE 2 - LONG TERM DEBT

Long-term debt is secured by the properties and assets, both real and personal of the System, including an assignment and pledge of revenues, and is due as follows:

| | <u>2019</u> | <u>2018</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Rural Economic and Community Development Services dated April 1, 1988, due \$3,649 monthly including principal and interest at 5% | \$ 288,280 | \$ 316,875 |
| Rural Economic Community Development Services dated August 16, 1995, due \$8,168 monthly including principal and interest at 5.125% | <u>1,046,905</u> | <u>1,090,063</u> |
| | 1,335,185 | 1,406,938 |
| Less current portion due | <u>75,472</u> | <u>71,745</u> |
| | <u>\$ 1,259,713</u> | <u>\$ 1,335,193</u> |

Maturities are as follows:

| <u>Years</u> | <u>Note Principal</u> | <u>Note Interest</u> | <u>Total Debt Service</u> |
|--------------|---------------------------|--------------------------|-------------------------------|
| 2020 | \$ 75,472 | \$ 66,332 | \$ 141,804 |
| 2021 | 79,393 | 62,411 | 141,804 |
| 2022 | 83,517 | 58,287 | 141,804 |
| 2023 | 87,856 | 53,948 | 141,804 |
| 2024 | 92,421 | 49,383 | 141,804 |
| 2025-2029 | 447,497 | 174,027 | 621,524 |
| 2030-2034 | 420,574 | 69,506 | 490,080 |
| 2035-2039 | <u>48,455</u> | <u>729</u> | <u>49,184</u> |
| | <u>\$1,335,185</u> | <u>\$ 534,623</u> | <u>\$1,869,808</u> |

Long-term debt balance at December 31, 2019 and 2018 was \$1,259,713 and \$1,335,193 respectively. Cash interest paid for 2019 and 2018 was \$69,843 and \$73,397, respectively with no interest capitalized in either year. There was no new debt incurred in 2019 or 2018. Principal payments for 2019 and 2018 were \$71,752 and \$68,209 respectively.

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE 3 - DEBT SERVICE FUND

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>2019 Transfer</u> | <u>12/31/19 Balance</u> | <u>Over (Under) Funded</u> |
|------------------|----------------------------|--------------------------|-----------------------------|------------------------------------|
| RECDs- 1988 Loan | \$ 43,800 | \$ 1,513 | \$ 64,272 | \$ 20,472 |
| RECDs- 1995 Loan | \$ 98,016 | \$ 817 | \$ 817 | \$ (97,199) |

These funds can be used for payment due on the related notes if sufficient funds are not available in the General Fund. These funds may also be used for other specific purposes after receiving prior approval from Rural Economic and Community Development Services. As of 12/31/2019, the reserve for the 1995 Loan is underfunded by \$97,199.

NOTE 4 - CASH ON DEPOSIT -CREDIT RISK

The bank balances as of December 31, 2019 are insured by Federal Depository Insurance Funds or collateralized with securities. The bank balances as of December 31, 2019 total \$245,844. These bank balances are classified in the following categories of credit risk:

| <u>Bank Deposit Covered By</u> | <u>Category</u> | | | <u>Book Balance</u> | <u>Collateral Market Value</u> |
|----------------------------------------|------------------|-------------|-------------|-------------------------|----------------------------------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | | |
| FDIC Insurance | \$245,844 | - | - | \$245,844 | \$245,844 |
| Collateralized | - | - | - | - | 455,000 |
| Uncollater- alized | - | - | - | - | - |
| | <u>\$245,844</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$245,844</u> | <u>\$700,844</u> |

The collateral for the System's deposits is categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes deposits that are insured or collateralized with securities held by the System or its agent in the System's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the System's name. Category 3 includes uncollateralized deposits.

The System has not formally adopted a deposit and investment policy that limits allowable deposits or investments.

NOTES TO FINANCIAL STATEMENTS -CONT'D.

NOTE 5 - PROPERTY AND EQUIPMENT

Activity for fixed assets which are capitalized by the City for the year ended December 31, 2019 is summarized below:

| | Balance at <u>12/31/2018</u> | Additions | Disposals | Balance at <u>12/31/2019</u> |
|----------------------------|---------------------------------|------------------|-------------|---------------------------------|
| Land | \$ 134,137 | \$ - | \$ - | \$ 134,137 |
| Buildings & water lines | 3,766,206 | - | - | 3,766,206 |
| Equipment | 550,030 | 8,280 | - | 558,310 |
| Vehicles | <u>76,640</u> | <u>-</u> | <u>-</u> | <u>76,640</u> |
| Active property | 4,527,013 | 8,280 | - | 4,535,293 |
| Idle property | <u>70,309</u> | <u>-</u> | <u>-</u> | <u>70,309</u> |
| Total | <u>\$4,597,322</u> | <u>\$ 8,280</u> | <u>\$ -</u> | <u>\$4,605,602</u> |
| Accum depr | <u>\$2,923,312</u> | <u>\$108,924</u> | <u>\$ -</u> | <u>\$3,032,236</u> |

Amortization of contributions in aid of construction for assets acquired by grants is \$12,412.

NOTE 6 - METER DEPOSIT FUNDS

Funds are held in reserve accounts for meter deposits paid by customers. These funds are used to pay the water charges if a customer defaults on his account or there is a balance due when the account is closed; otherwise the deposit is refunded when the account is closed. At December 31, 2019 and December 31, 2018 the funds were deposited in a certificate of deposit and a demand account totaling \$56,918 and \$55,245, respectively.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The book values of cash, trade accounts receivable, accounts payable, and other financial instruments approximate their fair values principally because of the short-term maturities of these instruments. The fair value of long-term debt is estimated based on current rates for debt of similar terms and maturities. Under this method, the fair value of long-term debt was not significantly different from the stated value at December 31, 2019 and 2018.

NOTE 8 - RELATED PARTY TRANSACTIONS

The System paid Spurlock, Inc. for services related to sewer system repairs and maintenance. Spurlock, Inc. is owned by System board member Mitchell Spurlock.

The System paid \$172,403 and \$111,155 to Spurlock, Inc. during 2019 and 2018, respectively, for services and materials to inspect the sewer lines and to repair breaks.

NOTES TO FINANCIAL STATEMENTS -CONT'D.

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 the occurrence of 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 occurrence of 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, 2019.

On April 24, 2019, the System provided a letter to the ADEQ from a professional engineer which listed the completed milestone items. The request included a revised Corrective Action Plan with a new milestone schedule and a new final date of compliance of December 31, 2021.

The System paid approximately \$99,500 in 2016 to inspect the sewer lines using smoke and cameras and to repair major breaks. The System paid \$202,340 and \$124,039 in 2019 and 2018, respectively, for sewer repairs and maintenance and for contract labor, the majority of which was to comply with the ADEQ Corrective Action Plan.

NOTE 10 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 21, 2020, which is the date the financial statements were available to be issued.



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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 Board of Directors
Judsonia Water and Sewer System
Judsonia, Arkansas

We have audited the financial statements of Judsonia Water and Sewer System, as of and for the year ended December 31, 2019, which collectively comprise the basic financial statements and have issued our report thereon dated December 21, 2020. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Judsonia Water and Sewer System's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Judsonia Water and Sewer System's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Judsonia Water and Sewer System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Judsonia Water and Sewer System's financial statements that is more than inconsequential will not be prevented or detected by Judsonia Water and Sewer System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Judsonia Water and Sewer System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify

any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Judsonia Water and Sewer System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

As indicated in Note 3 to the financial statements, the reserve for the 1995 Loan from RECDs was underfunded at December 31, 2019.

We noted certain other matters that we reported to the Board of Judsonia Water and Sewer System in a separate letter dated December 21, 2020.

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.

Hamilton, Cheng, Spradlin & Mandell, Ltd.

Searcy, Arkansas
December 21, 2020