

**JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)**

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

(With independent auditor's report thereon.)

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Independent Auditor's Report

To the Board of Commissioners
Jacksonville Wastewater Utility
Jacksonville, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Jacksonville Wastewater Utility, a component unit of the City of Jacksonville, Arkansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Jacksonville Wastewater Utility's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of Jacksonville Wastewater Utility, as of December 31, 2022 and 2021, and the respective 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 Jacksonville Wastewater Utility 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 opinions.

Responsibilities of Management for the Financial Statements

Jacksonville Wastewater Utility's management is responsible for the preparation and fair presentation of the 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.

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 Jacksonville Wastewater Utility's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 opinions. 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 GAAS 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 GAAS, 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 Jacksonville Wastewater Utility'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 Jacksonville Wastewater Utility'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.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements present only Jacksonville Wastewater Utility and do not purport to, and do not, present fairly the financial position of the City of Jacksonville, Arkansas, and the changes in its financial position, or where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents 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 Jacksonville Wastewater Utility's basic financial statements. The supplementary information, as listed in the table of contents, 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. Such 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2023 on our consideration of Jacksonville Wastewater Utility'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 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 Jacksonville Wastewater Utility's internal control over financial reporting and compliance.

EGP, PLLC

February 27, 2023

Certified Public Accountants & Consultants
Bryant, Arkansas

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of Jacksonville Wastewater Utility (“JWU” or the “Utility”), we offer this discussion and analysis of the financial activities of JWU for the fiscal year ended December 31, 2022. This overview is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the system’s financial activity; c) identify changes in the system’s financial positions (its ability to address the next subsequent year challenges); d) identify any material deviations from the financial plan; and e) identify individual fund issues or concerns.

JACKSONVILLE WASTEWATER UTILITY SYSTEM

JWU is regulated by the Arkansas Department of Environmental Quality (ADEQ). This agency issues a permit to JWU for discharge of treated wastewater. The J. Albert Johnson Regional Wastewater Treatment Plant is located on Cloverdale Road. The Jacksonville municipal sewer system includes approximately 192 miles of gravity and force main sewer lines from 6-inch to 42-inch in size with over 3,800 manholes. The earliest construction in the system dates back more than 60 years. The system also includes 14 pump stations ranging in capacity from 90 to 3,500 gallons per minute (gpm). JWU also treats wastewater from the Little Rock Air Force Base, which includes approximately 43.58 miles of gravity lines and about 860 manholes. Treatment and discharge operations at the Johnson Plant are authorized by federal and state regulatory agencies through NPDES Permit No. AR0041335.

JWU has completed twenty-seven (27) consecutive years without an NPDES permit violation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of JWU report information about the Utility using accounting methods similar to those used by the private-sector companies. These statements provide both long-term and short-term information about the Utility’s overall financial status. The basic financial statements are comprised of enterprise fund financial statements and notes to the financial statements.

The statement of financial position presents information on all of the JWU’s assets and liabilities with the difference between the two reported as net position. The statement provides one way to measure the financial health of the JWU by providing the basis for evaluating the capital structure of the Utility and assessing the liquidity and financial flexibility of the Utility.

The statement of revenues, expenses and changes in net position presents information showing how JWU’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statement of cash flow reports cash receipts and expenditures that result from operations, investing, and financing activities. This statement provides answers to questions such as where cash came from and for what it was used.

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

FINANCIAL ANALYSIS AND RESULTS OF OPERATIONS

A condensed summary of JWU's net position as of December 31, 2022, 2021, and 2020 is provided below:

TABLE 1
SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION
DECEMBER 31, 2022, 2021, AND 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets and Deferred Outflows of Resources:			
Total current assets	\$ 17,077,620	\$ 18,424,757	\$ 10,020,868
Total restricted noncurrent assets	1,169,007	529,950	529,997
Net capital assets	34,155,023	28,571,196	28,990,831
Deferred Outflows of Resources	<u>678,046</u>	<u>306,172</u>	<u>555,091</u>
Total Assests and Deferred Outflows of Resources	<u>\$ 53,079,696</u>	<u>\$ 47,832,075</u>	<u>\$ 40,096,787</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Total current liabilities	\$ 1,415,892	\$ 660,781	\$ 336,902
Total noncurrent liabilities	<u>23,491,829</u>	<u>23,097,617</u>	<u>16,788,530</u>
Total Liabilities	<u>24,907,721</u>	<u>23,758,398</u>	<u>17,125,432</u>
Deferred Inflows of Resources	<u>60,413</u>	<u>962,631</u>	<u>123,814</u>
Net Position:			
Invested in capital assets	12,102,837	6,053,832	14,476,596
Restricted	1,308,089	1,209,593	529,997
Unrestricted	<u>14,700,636</u>	<u>15,847,621</u>	<u>7,840,948</u>
Total Net Position	<u>28,111,562</u>	<u>23,111,046</u>	<u>22,847,541</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 53,079,696</u>	<u>\$ 47,832,075</u>	<u>\$ 40,096,787</u>

JWU had two revenue bonds issued in December 2009. Net proceeds from the \$3,970,000, Series 2009A issue were used to retire outstanding debt on a short-term bank construction loan. Net proceeds from the \$14,330,000, Series 2009B issue were used to finance the following projects:

- Upgrade existing treatment plant equipment.
- Install ultraviolet disinfection system (eliminate chlorine/sulfur dioxide system).
- Rehabilitate existing sewer main lines within the system.
- Construct new interceptors.

Due to a delay in planned economic development of a property owned by the City, an extension of the original expiration date of December 15, 2012 was extended to December 1, 2014 to fully expend all Bond proceeds. The planned sewer line extension was completed in 2014.

In April 2016 JWU issued \$1,865,000 in Wastewater Refunding Revenue Bonds for the purpose of refunding the Series 2009A Bonds and issued \$14,015,000 in Wastewater Refunding Revenue Bonds for the purpose of refunding the Series 2009B Bonds. The refunding would provide a \$2,423,000 reduction in debt service payments over the next 22 years.

In August 2020 JWU issued \$14,620,000 in Wastewater Refunding Revenue Bonds for the purpose of refunding the Series 2016B Bonds. The refunding provided a \$1,793,000 reduction in debt service payments over the next 20 years. The Series 2016A bonds were defeased at closing from funds available with the trustee. As a result, the Series 2020 bonds were the only bonds outstanding as of 12/31/2020. JWU issued revenue bonds in December 2021, to finance upgrades to the existing treatment plant equipment, in the amount of \$8,150,000.

In 2022, total assets exceeded liabilities at year-end by \$28,111,562 (net position). Of this amount, \$14,700,636 (unrestricted net assets) may be used to meet the system's ongoing obligations to customers and creditors.

The largest portion of the system's net assets reflects its investment in capital assets, net of the related debt used to acquire the assets. The system uses these capital assets to provide services to its customers. The related debt will be repaid with resources provided by the system's customers through rates and fees.

Total assets increased by \$5,247,621 from 2021. Total assets amounted to \$53,079,696 consisting of capital assets in the amount of \$34,155,023 and other assets in the amount of \$18,924,673. Cash (both restricted and unrestricted) in the amount of \$17,031,378 is included in the other asset amount.

Total liabilities amounted to \$24,907,721, consisting of long-term liabilities in the amount of \$23,491,829 and other liabilities in the amount of \$1,415,892. The Utility's total liabilities include revenue bonds payable (net of unamortized discount) in the amount of \$22,016,553, closure/post-closure liability of \$697,474, and accrued pension liability of \$1,712,802. JWU's total liabilities and deferred inflows of resources increased \$247,105 from 2021.

A condensed summary of JWU's changes in net position as of December 31, 2022, 2021 and 2020 is provided below:

TABLE 2
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenues:			
Total operating revenues	5,480,065	4,943,922	\$ 4,913,784
Total other revenues	<u>145,903</u>	<u>82,104</u>	<u>185,640</u>
Total Revenues	<u>5,625,968</u>	<u>5,026,026</u>	<u>5,099,424</u>
Expenses:			
Depreciation	2,068,800	2,075,096	2,085,759
Other operating expenses	3,234,756	2,733,515	3,070,707
Bond issue cost	-	52,917	86,521
Gain (loss) on disposal of capital assets	1,347	-	-
Interest expense	<u>527,047</u>	<u>314,755</u>	<u>523,365</u>
Total Expenses	<u>5,831,950</u>	<u>5,176,283</u>	<u>5,766,352</u>
Change in net position before contributions	(205,982)	(150,257)	(666,928)
Capital contributions	<u>5,206,498</u>	<u>413,762</u>	<u>200,851</u>
Change in net position	5,000,516	263,505	(466,077)
Net Position, Beginning of Year	23,111,046	22,847,541	23,313,618
Restatement - Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net position	<u>23,111,046</u>	<u>22,847,541</u>	<u>23,313,618</u>
Ending net position	<u>\$28,111,562</u>	<u>\$23,111,046</u>	<u>\$22,847,541</u>

Total operating revenues amounted to \$5,480,065 during 2022 which represents 10.84 % increase over the previous year. Total operating expenses including provisions for depreciation and closure and post-closure care costs amounted to \$5,303,556 an increase of 10.29 %. The operating gain for 2022 was \$176,509, an increase of 30.44% over the operating gain for 2021.

JWU experienced a decrease in total cash in the amount of \$(877,245) during 2022, primarily attributable to the treatment plant improvement project cost.

JWU's net cash provided by operating activities was \$2,399,340 in 2022, an increase of \$685,122 from 2021. Net cash provided by capital financing activities was \$(3,422,488) in 2022, a decrease of \$9,834,909 from 2021.

BUDGET ANALYSIS AND VARIANCES

In 2022, JWU budgeted total revenues of \$4,778,105 as compared to actual results of \$5,625,968. Total expenses were budgeted at \$5,849,994 including budgeted depreciation of \$2,100,000 and closure/post closure of \$30,000. Actual expenses amounted to \$5,831,950 which resulted in a \$18,044 variance under budgeted verses actual.

ECONOMIC FACTORS

The service area of the system is best described as only slightly growing. The system is in a slow growth situation with most additions being funded by developers. The system has an ongoing rehabilitation improvement program, which includes repair and replacement of mainlines and upgrades to the sewer treatment plant in order to comply with the increasing regulatory requirements and population demands.

The average customer base for the Utility is currently 9,600. A summary of JWU's consumption totals for the past 10 years are listed below.

Year 2012	607,379 million gallons, down 10.77% from previous year
Year 2013	563,761 million gallons, down 7.7% from previous year
Year 2014	561,897 million gallons, down 0.33% from previous year
Year 2015	583,184 million gallons, up 3.65% from previous year
Year 2016	552,826 million gallons, 5% from previous year
Year 2017	546,742 million gallons, 1.1% from previous year
Year 2018	545,599 million gallons, down 0.21% from previous year
Year 2019	558,346 million gallons, up 2.34% from previous year
Year 2020	551,491 million gallons, down 1.23% from previous year
Year 2021	563,077 million gallons, up 2.10% from previous year
Year 2022	578,911 million gallons, up 2.81% from previous year

PROPOSED PLANS FOR THE FUTURE

On-going rehabilitation of the aging system is being budgeted annually as funds allow. Construction is under way for treatment plant improvements to be completed in late 2023.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Jacksonville Wastewater Utility's finance office at 248 Cloverdale Road, Jacksonville, AR 72076.

Jacksonville Wastewater Utility
Statements of Net Position
December 31, 2022 and 2021
(See independent auditor's report.)

Assets and Deferred Outflows of Resources

	2022	2021
Current Assets		
Cash and cash equivalents	\$ 11,846,244	9,246,448
Accounts receivable	881,731	723,685
Revenues earned and unbilled	193,901	193,901
Inventories of materials and supplies, at cost	121,579	112,654
Prepaid items	18,038	15,844
Restricted current assets:		
Cash and cash equivalents restricted for debt service	139,082	679,643
Cash and cash equivalents restricted for capital assets	3,877,045	7,452,582
Total Current Assets	17,077,620	18,424,757
Noncurrent Assets		
Restricted non-current assets:		
Cash and cash equivalents restricted for debt service	1,169,007	529,950
Capital assets, net of accumulated depreciation	34,155,023	28,571,196
Total Noncurrent Assets	35,324,030	29,101,146
Total Assets	52,401,650	47,525,903
Deferred Outflows of Resources		
Deferred amounts on bond refunding	173,388	191,949
Deferred amounts on pension funding	504,658	114,223
Total Deferred Outflows of Resources	678,046	306,172
 Total Assets and Deferred Outflows of Resources	 \$ 53,079,696	 47,832,075

The accompanying notes are an integral part of these financial statements.

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2022</u>	<u>2021</u>
Current Liabilities		
Accounts payable	\$ 394,475	85,371
Accrued expenses	50,784	62,611
Bonds payable, current	935,000	500,000
Accrued interest payable	35,633	12,799
Total Current Liabilities	<u>1,415,892</u>	<u>660,781</u>
Noncurrent Liabilities		
Bonds payable	21,081,553	22,004,565
Closure and post-closure liability	697,474	603,404
Net pension liability	1,712,802	489,648
Total Noncurrent Liabilities	<u>23,491,829</u>	<u>23,097,617</u>
Total Liabilities	<u>24,907,721</u>	<u>23,758,398</u>
Deferred Inflows of Resources		
Deferred amounts on pension funding	60,413	962,631
Total Deferred Inflows of Resources	<u>60,413</u>	<u>962,631</u>
Total Liabilities and Deferred Inflows of Resources	<u>24,968,134</u>	<u>24,721,029</u>
Net Position		
Net investment in capital assets	12,102,837	6,053,832
Restricted for debt service	1,308,089	1,209,593
Unrestricted	14,700,636	15,847,621
Total Net Position	<u>28,111,562</u>	<u>23,111,046</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 53,079,696</u>	<u>47,832,075</u>

Jacksonville Wastewater Utility
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021
(See independent auditor's report)

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Sewer charges	\$ 4,912,015	4,909,855
Other	568,050	34,069
Total Operating Revenues	<u>5,480,065</u>	<u>4,943,924</u>
Operating Expenses		
Salaries and benefits	1,887,548	1,620,242
Contract services	402,813	380,934
Utilities	343,136	283,015
Maintenance and repair	331,844	247,723
Supplies	128,624	138,342
Insurance	46,720	40,534
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,140,685</u>	<u>2,710,790</u>
Provisions For:		
Depreciation	2,068,801	2,075,095
Closure and post-closure care costs	94,070	22,728
Total Provisions	<u>2,162,871</u>	<u>2,097,823</u>
Operating Income (Loss)	<u>176,509</u>	<u>135,311</u>
Non-Operating Revenues (Expenses)		
Interest income	145,903	82,104
Interest expense	(527,047)	(314,755)
Bond issue costs	-	(52,917)
Gain (loss) on disposal of capital assets	(1,347)	-
Total Non-Operating Revenues (Expenses)	<u>(382,491)</u>	<u>(285,568)</u>
Change in Net Position Before Capital Contributions	(205,982)	(150,257)
Capital contributions	<u>5,206,498</u>	<u>413,762</u>
Change in Net Position	5,000,516	263,505
Net position - beginning of year	<u>23,111,046</u>	<u>22,847,541</u>
Net Position - End of Year	<u>\$ 28,111,562</u>	<u>23,111,046</u>

The accompanying notes are an integral part of these financial statements.

Jacksonville Wastewater Utility
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021
(See independent auditor's report.)

	2022	2021
Cash Flows From Operating Activities:		
Cash received from:		
Customers	\$ 4,753,969	4,738,471
Other receipts	568,050	34,069
Cash payments for:		
Cash paid to employees	(1,887,548)	(1,620,242)
Cash paid to suppliers	(940,214)	(1,412,218)
Cash paid for other administrative costs	(94,917)	(25,862)
Net Cash Provided by Operating Activities	2,399,340	1,714,218
 Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets, net	(2,448,824)	(1,241,770)
Bond issuance costs	18,561	(34,183)
Principal paid on outstanding bonds payable	(500,000)	(135,000)
Interest paid on bonds payable	(492,225)	(326,626)
Proceeds from issuance of bonds payable	-	8,150,000
Net Cash (Required) by Capital and Related Financing Activities	(3,422,488)	6,412,421
 Cash Flows From Investing Activities:		
Interest on investments	145,903	82,104
Net Cash Provided (Required) by Investing Activities	145,903	82,104
 Net Increase (Decrease) in Cash and Cash Equivalents	(877,245)	8,208,743
Cash and cash equivalents at beginning of year	17,908,623	9,699,880
Cash and Cash Equivalents at End of Year	\$ 17,031,378	17,908,623

The accompanying notes are an integral part of these financial statements.

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 176,509	135,311
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	2,068,801	2,075,095
Loss on disposal of capital assets	1,347	72
Closure and post-closure care costs	94,070	22,728
(Increase) decrease in assets:		
Accounts receivable - customers	(158,046)	(171,384)
Inventories of materials and supplies	(8,925)	(20,509)
Prepaid items	(2,194)	(3,206)
Increase (decrease) in liabilities:		
Accounts payable	309,104	(35,146)
Accrued liabilities	(11,827)	7,041
Net pension liability and related accounts	(69,499)	(295,784)
Net Cash Provided by Operating Activities	<u>\$ 2,399,340</u>	<u>1,714,218</u>

Reconciliation of Total Cash and Cash Equivalents

Current Assets:

Cash and cash equivalents	\$ 11,846,244	9,246,448
Cash and cash equivalents restricted for debt service	139,082	679,643
Cash and cash equivalents restricted for capital assets	3,877,045	7,452,582

Noncurrent Assets:

Restricted for bond requirements-cash and cash equivalents	1,169,007	529,950
Total Cash and Cash Equivalents	<u>\$ 17,031,378</u>	<u>17,908,623</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

Donated capital assets	<u>\$ 5,206,498</u>	<u>413,762</u>
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**Jacksonville Wastewater Utility
Notes to Financial Statements
December 31, 2022 and 2021**

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting Entity

The financial statements of Jacksonville Wastewater Utility (“JWU” or the “Utility”), a component unit (Enterprise Fund) of the City of Jacksonville, Arkansas (the “City”), conform to generally accepted accounting principles for state and local governments. The Utility was established to operate the municipally owned wastewater treatment and collection system. JWU provides wastewater treatment services to residential, industrial and commercial customers located in Jacksonville, and to the Little Rock Air Force Base, located inside the city limits of Jacksonville. These services consist of treatment and disposal of sewer water, inspection and repair of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The Utility had approximately 9,600 at December 31, 2022 and 2021. The governing body is a five-member board appointed by the Jacksonville City Council. JWU is financially accountable to the City of Jacksonville because the Mayor and City Council must approve any rate adjustments and debt issuances.

Basis of Accounting

JWU is a proprietary fund of the City and its financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units.

As a component unit of the City of Jacksonville, JWU has adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis – for State and Local Governments*. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. It requires the classification of net position into three components – restricted; net invested in capital assets; and unrestricted.

Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets, and adding back unspent proceeds.

Restricted – consists of constraints placed on net assets used 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.

Unrestricted – consists of net assets that do not meet the definition of “restricted” or “net invested in capital assets.”

When both restricted and unrestricted resources are available for use on an expenditure, it is generally JWU’s policy to use the restricted resources first. For projects funded by debt proceeds and other sources, the debt proceeds are used first.

As a component unit of the City of Jacksonville, JWU applies the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that capital contributions to JWU be presented as a change in net position.

JWU’s accounting and financial reporting practices are similar to those used for business enterprises; therefore, the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned

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and expenses are recorded at the time liabilities are incurred. Revenues from assessments levied, industrial surcharges, connection fees, and other sewer fees are reported as operating revenues. Transactions which are capital, financing, or investing related are reported as non-operating revenues. All expenses related to operating the sewer system such as salaries, benefits, supplies, utilities, and administrative costs are reported as operating expenses. Interest expense and financing costs are reported as non-operating expenses.

Cash and Cash Equivalents

JWU considers both restricted and unrestricted demand deposits, certificates of deposit, money market funds and deposits with certificate of deposit account registry service (CDARS) to be cash equivalents.

Accounts Receivable

Accounts receivable consists of credit extended to users in the normal course of business. The Utility utilizes the direct write-off method to account for bad debt expense. The policy for determining when receivables are past due or delinquent is based on how recently payments have been received. Amounts are written off at the point when collection attempts have been exhausted. If the customer returns, any written-off amount must be paid in full before service can be connected.

Generally accepted accounting principles require the reserve method to be used to account for bad debts; however, the use of the method described above does not result in a material difference between that and the reserve method. JWU recorded \$34,520 and \$18,177 in bad debt expense related to operating revenues for the years ended December 31, 2022 and 2021, respectively. Recoveries of items previously charged off are recognized as revenue when received.

Inventories

Inventories of materials and supplies are valued at the lower of average cost or market value. Cost is determined using the first-in, first-out (FIFO) method.

Capital Assets, Capital Contributions and Capital Asset Impairment

Capital assets consist of property, plant and equipment and include assets which have been contributed to JWU. These assets, consisting primarily of donated sewer lines, are recorded at the donor's cost (which approximates fair market value at the transfer date for those assets). Capital assets are defined by JWU as assets with an initial, individual cost of at least \$1,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method of depreciation with estimated useful lives of 5 to 31 years for buildings and improvements, 5 to 30 years for machinery and equipment, and 15 to 40 years for collection systems (primarily sewer lines). Interest cost incurred during construction is capitalized.

Construction in progress is stated at cost. Construction in progress is not depreciated until such time as the assets are completed and put into operational use.

The Utility evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

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Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Utility has two items reported as deferred outflows of resources:

- Deferred amounts on bond refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred amounts on pension funding – The contributions made to the pension plan after the measurement date are deferred and recognized in the following fiscal year. The difference in assumption changes in the pension plan is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred. The net difference between projected and actual earnings on pension plan investments is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utility reports the following item as deferred inflows of resources:

- Deferred amounts on pension funding – The differences between expected and actual experience and changes in proportionate differences between employer contributions and proportionate share is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which the difference occurred.

Compensated Absences

Full-time, permanent employees are granted vacation benefits on the basis of tenure with the Utility. Generally, after six months of service, employees are entitled to accrued vacation leave upon termination. JWU accrues a current liability for eligible vacation leave expected to be used during the coming year.

Employees are allowed to accrue twelve (12) days of sick leave each year up to a maximum of 90 days for full time employees. Sick leave is not normally paid without an illness related absence. Employees are not paid for unused sick leave upon termination of employment, however accumulated sick leave is paid up to a maximum of 60 days at the time of retirement, provided the employee has been employed for at least 15 years with the Utility. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “termination leave” prior to retirement.

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Use of Estimates

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 amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Date of Management's Review

Management has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2022 through February 27, 2023, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

2. Cash and Cash Equivalents

Deposits

Custodial credit risk that in the event of a bank failure, a government's deposits may not be returned to it. The Utility's deposit policy for custodial credit risk requires compliance with the provisions of state law. Arkansas law requires collateralization of all municipal deposits by federal depository insurance (FDIC) and qualified pledged securities consisting of bonds or other interest-bearing securities of the United States, the State of Arkansas, Arkansas political subdivisions or agencies or instrumentalities of these agencies.

The Utility had deposits with financial institutions of \$17,096,905 at December 31, 2022 and \$17,422,454 at December 31, 2021. The Utility had deposits on books of \$17,030,878 at December 31, 2022 and \$17,422,954 at December 31, 2021. The greatest credit risk exposure would be uninsured portions not collateralized since the collateral is not held by the financial institution itself. All collateralized amounts are in the name of JWU. At December 31, 2022 and 2021, deposits were fully covered by FDIC insurance and appropriate collateralization.

Included in cash and cash equivalents shown in the statements of net position are investments in certificates of deposit and deposits with certificate of deposit account registry service (CDARS) that are designated by the Wastewater Commission as follows:

	<u>2022</u>	<u>2021</u>
Construction fund	\$ 2,472,136	2,275,425
Emergency equipment replacement fund	751,808	500,000
Emergency capital reserve fund	500,000	701,808
Equipment fund	135,277	156,614
Depreciation fund	313,504	258,841
Pump station fund	145,260	135,178
	<u>\$ 4,317,985</u>	<u>4,027,866</u>

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3. Restricted Assets

Bond accounts are maintained to segregate funds that will be used to make debt service payments on the Utility's outstanding bond issues.

Debt service reserve accounts are maintained for each of the Utility's bond issues and include amounts as stipulated by the underlying bond agreements to ensure the Utility's ability to meet debt service obligations if revenues are insufficient to do so during a given period. Funding of the debt service reserve accounts is typically based on a percentage of the maximum annual debt service requirements.

Project funds are maintained for proceeds received from bonds for construction of capital assets.

4. Capital Assets

Capital asset activity for the years ended December 31, 2022 and 2021 is as follows:

	Balance December 31, 2021	Additions and Transfers, Net	Retirements and Transfers, Net	Balance December 31, 2022
Capital assets not being depreciated				
Land and easements	\$ 411,491	-	-	411,491
Construction in progress	1,519,873	7,099,678	-	8,619,551
Total capital assets, not being depreciated	<u>1,931,364</u>	<u>7,099,678</u>	<u>-</u>	<u>9,031,042</u>
Capital assets being depreciated				
Buildings and improvements	2,437,312	-	-	2,437,312
Infrastructure-collection and treatment	62,184,934	290,977	(85,588)	62,390,323
Equipment and vehicles	2,678,994	263,320	(14,371)	2,927,943
Total capital assets being depreciated	67,301,240	554,297	(99,959)	67,755,578
Less accumulated depreciation	<u>(40,661,408)</u>	<u>(2,068,801)</u>	<u>98,612</u>	<u>(42,631,597)</u>
Capital assets, net	<u>\$ 28,571,196</u>	<u>5,585,174</u>	<u>(1,347)</u>	<u>34,155,023</u>

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	Balance December 31, 2020	Additions and Transfers, Net	Retirements and Transfers, Net	Balance December 31, 2021
Capital assets not being depreciated				
Land and easements	\$ 411,491	-	-	411,491
Construction in progress	220,376	1,299,497	-	1,519,873
Total capital assets, not being depreciated	<u>631,867</u>	<u>1,299,497</u>	<u>-</u>	<u>1,931,364</u>
Capital assets being depreciated				
Buildings and improvements	2,436,106	1,206	-	2,437,312
Infrastructure-collection and treatment	62,003,172	181,762	-	62,184,934
Equipment and vehicles	2,550,011	173,067	(44,084)	2,678,994
Total capital assets being depreciated	66,989,289	356,035	(44,084)	67,301,240
Less accumulated depreciation	<u>(38,630,325)</u>	<u>(2,075,095)</u>	44,012	<u>(40,661,408)</u>
Capital assets, net	<u>\$ 28,990,831</u>	<u>(419,563)</u>	<u>(72)</u>	<u>28,571,196</u>

Depreciation expense was \$2,068,801 and \$2,075,095 for the years ended December 31, 2022 and 2021, respectively.

5. Concentration of Risk

At December 31, 2022 and 2021, JWU had accounts receivable from the Little Rock Air Force Base totaling \$46,699 and \$40,657, respectively, representing approximately 5% and 6%, respectively of total accounts receivable included in the accompanying statements of net position.

Sewer service revenue received from the Little Rock Air Force Base amounted to \$520,150 in 2022 and \$467,593 in 2021 or approximately 11% and 10% of the total sewer service revenue received by the Utility for the years ended December 31, 2022 and 2021, respectively.

6. Contributions in Aid of Construction

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals were \$5,206,498 and \$413,762 for the years ended December 31, 2022 and 2021, respectively.

7. Long-Term Debt

Long-term debt consists of Wastewater Revenue Bonds for which the changes in the years ended December 31, 2022 and 2021 are as follows:

Wastewater Revenue Bonds

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	Balance at December 31, 2021	Increases	Decreases	Balances at December 31, 2022
Wastewater revenue bonds	\$ 22,635,000	-	(500,000)	22,135,000
Less bond discount	(130,435)	-	11,988	(118,447)
Total long-term liabilities	\$ 22,504,565	-	(488,012)	22,016,553

	Balance at December 31, 2020	Increases	Decreases	Balances at December 31, 2021
Wastewater revenue bonds	\$ 14,620,000	8,150,000	(135,000)	22,635,000
Less bond discount	(131,580)	(11,296)	12,441	(130,435)
Total long-term liabilities	\$ 14,488,420	8,138,704	(122,559)	22,504,565

Wastewater Refunding Revenue Bonds, Series 2020

In August 2020, the City of Jacksonville, Arkansas issued \$14,620,000 in Wastewater Refunding Revenue Bonds with interest rates ranging from 0.72% to 2.7% for the purpose of refunding the outstanding Series 2016 Bonds. The Series 2020 Bonds are special obligations secured by the pledge of and payable from revenues derived from the operations of the City's Wastewater Utility system. Principal payments are due annually on December 1 with the final payment scheduled in 2039. Interest payments are due semiannually on June 1 and December 1. Maturity dates are 2021 to 2039.

The difference between the reacquisition price of the 2020 Bonds and the net carrying value of the 2016 Bonds is reported as a deferred outflow of resources in the statements of net position and is being amortized through the year 2039 using the bonds outstanding method. The refunding reduced total debt service payments over the next 19 years by approximately \$1,793,000. This resulted in an economic gain (difference between the present values of the old debt service payments on the old and new debt) of approximately \$1,453,000.

Bond discount associated with the Series 2020 issue in the amount of \$131,580 is being amortized as a component of interest expense using the bonds outstanding method.

Wastewater Revenue Bonds, Series 2021

In December 2021, the City of Jacksonville, Arkansas issued \$8,150,000 in Wastewater Revenue Bonds with interest rates ranging from 2.212% to 4.0% for the purpose of financing a portion of the costs of the improvements, betterments, and extensions to the Jacksonville sewer system. The Series 2021 Bonds are special obligations secured by the pledge of and payable from revenues derived from the operations of the City's Wastewater Utility system. Principal payments are due annually on December 1 with the final payment scheduled in 2042. Interest payments are due semiannually on June 1 and December 1. Maturity dates are 2022 to 2042.

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Bond premium in the amount of \$62,054 and bond discount in the amount of \$73,350 associated with the Series 2021 issue is being amortized as a component of interest expense using the bonds outstanding method.

The Utility paid approximately \$492,225 and \$326,626 in interest charges related to the bonds for the years ended December 31, 2022 and 2021, respectively.

Annual Debt Service Requirements

The following schedules show the annual debt service requirements to pay principal and interest on the revenue bonds payable outstanding at December 31, 2022:

<u>Year Ending</u> <u>December 31,</u>	<u>Wastewater Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 935,000	472,622	1,407,622
2024	955,000	453,492	1,408,492
2025	970,000	438,012	1,408,012
2026	985,000	420,680	1,405,680
2027	1,005,000	400,904	1,405,904
2028-2032	5,310,000	1,724,624	7,034,624
2033-2037	5,910,000	1,134,494	7,044,494
Thereafter	6,065,000	383,798	6,448,798
	\$ 22,135,000	5,428,626	27,563,626

8. Arkansas Public Employees Retirement System (APERS)

Summary of Significant Accounting Policies

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System and additions to/deductions from APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

The following brief description of the Arkansas Public Employees Retirement System (APERS or the System) is provided for general information purposes only. Participants should refer to Arkansas Code Annotated, Title 24 for more complete information.

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings.

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board).

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Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

APERS provides retirement, disability and death benefits to plan members. Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. Retirement benefits are determined as a percentage of the member's highest 3-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or non-contributory as follows:

Contributory, prior to 7/1/2005	2.07%
Contributory, on or after 7/1/2005, but prior to 7/1/2007	2.03%
Contributory on or after 7/1/2007	2.00%
Non-Contributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- At age 65 with 5 years of service,
- At any age with 28 years actual service,
- At age 60 with 20 years of actual service if under the old contributory plan (prior to 7/1/2005), or
- At age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least 5 years of actual service at age 55 or at any age with 25 years of service.

Members are eligible for disability benefits with 5 years of service. Disability benefits are computed as an age and service benefit, based on service and pay at disability. Death benefits are paid to a surviving spouse as if the member had 5 years of service and the monthly benefit is computed as if the member had retired and elected the Joint & 75% Survivor option. A cost-of living adjustment of 3% of the current benefit is added each year.

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS.

Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for the plan years ended June 30, 2022 and 2021. Contributions to the pension plan from JWU were \$204,158 and \$199,049 for the years ended December 31, 2022 and 2021.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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The collective net pension liability of \$2,696,383,467 and \$768,832,303 for APERS was measured as of June 30, 2022 and 2021, respectively, and the total pension liability used to calculate the Net Pension Liability was determined by actuarial valuations as of those dates. At December 31, 2022 and 2021, JWU reported a liability of \$1,712,802 and \$489,648, respectively, for its proportionate share of the net pension liability. JWU's proportion of the net pension liability was based on JWU's contributions to the pension plan relative to the contributions of all participating APERS members. At June 30, 2022 JWU's proportion was 0.06352218%, which was a decrease of 0.00016507% from its proportion measured as of June 30, 2021, of 0.06368725%.

For the years ended December 31, 2022 and 2021, JWU recognized a pension expense of \$134,659 and pension benefit of \$96,735, respectively. At December 31, 2022 and 2021, JWU reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>2022</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<hr/>		
Net difference between projected and actual investment		
earnings on pension plan investments	\$ 361,318	-
Differences between expected and actual economic experience	41,113	20,679
Changes of actuarial assumptions	-	-
Changes in proportion and differences between employer		
contributions and proportionate share of contributions	222	39,734
JWU contributions subsequent to the measurement date	102,005	-
	<u>\$ 504,658</u>	<u>60,413</u>
	<u>2021</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
<hr/>		
Net difference between projected and actual investment		
earnings on pension plan investments	\$ -	859,499
Differences between expected and actual economic experience	11,206	31,403
Changes of actuarial assumptions	-	3,430
Changes in proportion and differences between employer		
contributions and proportionate share of contributions	1,752	68,299
JWU contributions subsequent to the measurement date	101,265	-
	<u>\$ 114,223</u>	<u>962,631</u>

The \$102,005 reported as deferred outflows of resources at December 31, 2022 related to pensions resulting from JWU's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended December 31, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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<u>Year Ended December 31:</u>	
2023	\$ 43,839
2024	44,080
2025	2,341
2026	251,980
	\$ 342,240

Actuarial Assumptions

The total pension liability, net pension liability and certain sensitivity information was determined by an actuarial valuation as of June 30, 2022. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.15%, net of investment administrative expenses
Discount Rate	7.15%
Salary Increases	3.25-9.85%, including inflation
Inflation	3.25% wage inflation, 2.50% price inflation
Mortality Table	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average Service Life of All Members	3.7989 for June 30, 2022 and 3.9676 for June 30, 2021

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2022 are summarized in the table below:

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Asset Class	2022		2021	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	37%	6.22%	37%	6.22%
International equity	24%	6.69%	24%	6.69%
Real assets	16%	4.81%	16%	4.81%
Absolute return	5%	3.05%	5%	3.05%
Domestic fixed	18%	0.57%	18%	0.57%
Total	<u>100%</u>		<u>100%</u>	
Total real rate of return				4.93%
Plus price inflation-actuary assumption				<u>2.50%</u>
Net expected return				<u>7.43%</u>

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15%) or 1-percentage point higher (8.15%) than the current rate:

1% Lower	Discount Rate	1% Higher
6.15%	7.15%	8.15%
\$2,723,042	\$ 1,712,802	\$ 878,758

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued APERS financial report located at <http://www.apers.org/publications>.

9. Deferred Compensation Plan

JWU offers its employees the option to participate in a deferred compensation plan. The purpose of the plan is to provide retirement income and other deferred benefits to JWU employees. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The employee provides all amounts of compensation under the plan. JWU does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees'

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contributions to the trustees. Accordingly, JWU has not presented the assets and liabilities from the plan in these financial statements. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

At December 31, 2022, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust by external administrators for the exclusive benefit of participants and their beneficiaries.

10. Sewer Billing Contract

Customer billing and collection services are provided to the Utility by Jacksonville Municipal Water Works. JWU pays Jacksonville Municipal Water Works a monthly rate per sewer customer as outlined in the contract. Such payments amount to \$86,255 and \$85,598 for the years ended December 31, 2022 and 2021, respectively, and are included as operating expenses in the accompanying statements of revenues, expenses and changes in net position.

11. Risk Management

The Utility has purchased insurance policies for various risks of loss related to theft, damage, or destruction of assets, and workers compensation. Coverage is provided through the Arkansas Municipal League which is an association of local governments. Payments and premiums for these policies are recorded as expenses of the Utility. There have been no significant reductions in insurance coverage from 2021 to 2022, and there were no settlements that exceeded insurance coverage in the past three fiscal years.

12. Closure and Post-Closure Care Costs

The Utility reports closure and post-closure care costs in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs*. Landfill closure and post-closure care requirements have been defined in accordance with State of Arkansas standards and include final covering and landscaping of the landfill, treatment and monitoring of leachate, monitoring ground water and surface water, and ongoing maintenance of various control systems, drainage systems and final cover. The reported liability is based on estimates and assumptions with respect to events extending over a thirty year period using the best information available to management. Future events will result in changes to estimated total expenses, capacity used or total capacity and the estimated liability, and will be recognized prospectively, as a change in estimate, when applicable.

Estimated closure and post-closure care costs are based on the annual engineering inspection report submitted to the Arkansas Department of Environmental Quality for the 2021 year. The liability for post-closure of \$697,474 is based upon capacity used during 2021 and is reported in other long-term liabilities. At December 31, 2021, the estimated total closure and post-closure care costs remaining to be recognized is approximately \$603,404. Capacity used to date is 39.83% and the estimated remaining life is 18.8 years. As of February 27, 2023, the 2022 engineering report was not available.

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13. Commitments

At December 31, 2022 and 2021, JWU had outstanding commitments under contracts for engineering services related to improvements of the municipal wastewater system in the amount of \$19,580,120 and \$18,614,163, respectively.

Jacksonville Wastewater Utility
Schedule of JWU's Proportionate Share of the Net Pension Liability
Arkansas Public Employees Retirement System

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
JWU's Proportion of the net pension liability	0.06352218%	0.06368725%	0.06475920%	0.06867259%
JWU's proportionate share of the net pension liability	\$ 1,712,802	489,648	1,854,434	1,656,746
JWU's covered-employee payroll	\$ 1,332,621	1,299,270	1,247,523	1,251,692
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	128.53%	37.69%	148.65%	132.36%
Plan fiduciary net position as a percentage of the total pension liability	78.31%	93.57%	75.38%	78.55%
APERS discount rate	7.15%	7.15%	7.15%	7.15%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
JWU's Proportion of the net pension liability	0.06838261%	0.07131173%	0.07483451%	0.07782077%
JWU's proportionate share of the net pension liability	\$ 1,508,476	1,842,795	1,789,554	1,433,251
JWU's covered-employee payroll	\$ 1,310,152	1,325,586	1,319,060	1,383,077
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	115.14%	139.02%	135.67%	103.63%
Plan fiduciary net position as a percentage of the total pension liability	79.59%	75.65%	75.50%	80.39%
APERS discount rate	7.15%	7.15%	7.50%	7.50%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined as of the Utility's measurement date (June 30).

**Jacksonville Wastewater Utility
Schedule of Contributions
Arkansas Public Employees Retirement System**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 204,158	199,049	191,120	191,759
Contributions in relation to the statutorily required contribution	(204,158)	(199,049)	(191,120)	(191,759)
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 1,332,621	1,299,270	1,247,523	1,251,692
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	15.32%	15.32%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 197,315	193,916	191,264	202,377
Contributions in relation to the statutorily required contribution	(197,315)	(193,916)	(191,264)	(202,377)
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered-employee payroll	\$ 1,310,152	1,325,586	1,319,060	1,383,077
Contributions as a percentage of covered-employee payroll	15.06%	14.63%	14.50%	14.63%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined of the Utility's most recent fiscal year-end (December 31).

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortized method	Level Percentage of Payroll, Closed
Remaining amortization period	25 Years
Asset valuation method	4-Year smoothed market, 25% corridor
Investment rate of return	7.15%
Inflation	3.25% wage inflation; 2.50% price inflation
Salary increases	3.25% - 9.85% including inflation
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Based on RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.
Average service life of all members	3.7989

Note: Investment rate of return was 7.50% and salary increases started at 3.95% through the June 30, 2016 measurement date.

Jacksonville Wastewater Utility
Budgetary Comparison Schedule
For the Year Ended December 31, 2022

	Original and Final Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Sewer charges	\$ 4,652,605	4,912,015	259,410
Other income	45,500	568,050	522,550
Total Operating Revenues	<u>4,698,105</u>	<u>5,480,065</u>	<u>781,960</u>
Operating Expenses			
Technical service	655,361	614,035	(41,326)
Treatment	1,128,000	1,146,475	18,475
Collection system	682,016	550,427	(131,589)
Laboratory services	256,656	255,594	(1,062)
Administrative	524,298	574,154	49,856
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,246,331</u>	<u>3,140,685</u>	<u>(105,646)</u>
Provisions For:			
Depreciation	2,100,000	2,068,801	31,199
Closure and post-closure care costs	30,000	94,070	(64,070)
	<u>2,130,000</u>	<u>2,162,871</u>	<u>(32,871)</u>
Operating Income (Loss)	<u>(678,226)</u>	<u>176,509</u>	<u>920,477</u>
Non-Operating Revenues (Expenses):			
Interest income	80,000	145,903	65,903
Interest expense	(473,663)	(527,047)	(53,384)
Gain (loss) on disposal of capital assets	-	(1,347)	(1,347)
Total Non-Operating Revenues (Expenses)	<u>(393,663)</u>	<u>(382,491)</u>	<u>12,519</u>
Change in Net Position Before Capital Contributions	<u>\$ (1,071,889)</u>	<u>(205,982)</u>	<u>865,907</u>

Jacksonville Wastewater Utility
Schedules of Operating Expenses by Department
Excluding Depreciation
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Technical Services		
Salaries	\$ 413,477	402,878
Employee benefits	124,441	42,822
Supplies	23,709	17,801
Contract services	10,796	10,859
Repairs and maintenance	31,742	24,364
Insurance	5,537	5,425
Utilities	4,333	4,334
Total Technical Services	<u>614,035</u>	<u>508,483</u>
Treatment		
Salaries	435,576	415,348
Employee benefits	108,363	39,042
Supplies	45,845	63,562
Contract services	25,377	40,547
Repairs and maintenance	170,867	119,607
Insurance	31,853	26,472
Utilities	328,594	268,477
Total Treatment	<u>1,146,475</u>	<u>973,055</u>
Collection System		
Salaries	300,760	333,826
Employee benefits	97,413	50,182
Supplies	19,038	22,697
Contract services	416	1,879
Repairs and maintenance	123,508	99,827
Insurance	6,241	6,017
Utilities	3,051	3,177
Total Collection System	<u>550,427</u>	<u>517,605</u>
Laboratory Services		
Salaries	158,218	158,024
Employee benefits	36,157	9,328
Supplies	18,851	21,808
Contract services	33,441	30,549
Repairs and maintenance	5,537	3,405
Insurance	2,156	1,836
Utilities	1,234	1,137
Total Laboratory Services	<u>255,594</u>	<u>226,087</u>

	<u>2022</u>	<u>2021</u>
Administrative		
Salaries	\$ 174,466	158,182
Employee benefits	38,677	10,610
Supplies	21,181	12,474
Contract services	332,783	297,100
Repairs and maintenance	190	520
Insurance	933	784
Utilities	5,924	5,890
Total Administrative	<u>574,154</u>	<u>485,560</u>
Total Operating Expenses	<u>\$ 3,140,685</u>	<u>2,710,790</u>

**Jacksonville Wastewater Utility
Schedule of Bonded Indebtedness
December 31, 2022**

Wastewater Refunding Revenue Bonds, Series 2020

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>6/01</u>	<u>12/01</u>	<u>6/01</u>	<u>12/01</u>	
2023	0.75%	\$ -	580,000	147,273	147,273	874,546
2024	1.03%	-	765,000	144,808	144,808	1,054,616
2025	1.23%	-	775,000	140,868	140,868	1,056,736
2026	1.50%	-	785,000	136,102	136,102	1,057,204
2027	1.60%	-	795,000	130,214	130,214	1,055,428
2028	1.75%	-	810,000	123,854	123,854	1,057,708
2029	1.90%	-	825,000	116,767	116,767	1,058,534
2030	1.95%	-	840,000	108,929	108,929	1,057,858
2031	2.06%	-	855,000	100,739	100,739	1,056,478
2032	2.17%	-	875,000	91,933	91,933	1,058,866
2033	2.27%	-	895,000	82,439	82,439	1,059,878
2034	2.37%	-	910,000	72,281	72,281	1,054,562
2035	2.47%	-	935,000	61,497	61,497	1,057,994
2036	2.70%	-	960,000	49,950	49,950	1,059,900
2037	2.70%	-	985,000	36,990	36,990	1,058,980
2038	2.70%	-	1,010,000	23,693	23,693	1,057,386
2039	2.70%	-	745,000	10,057	10,057	765,114
		<u>\$ -</u>	<u>14,345,000</u>	<u>1,578,394</u>	<u>1,578,394</u>	<u>17,501,788</u>

Wastewater Revenue Bonds, Series 2021

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>6/01</u>	<u>12/01</u>	<u>6/01</u>	<u>12/01</u>	
2023	4.00%	\$ -	355,000	89,038	89,038	533,076
2024	4.00%	-	190,000	81,938	81,938	353,876
2025	4.00%	-	195,000	78,138	78,138	351,276
2026	4.00%	-	200,000	74,238	74,238	348,476
2027	2.00%	-	210,000	70,238	70,238	350,476
2028	2.00%	-	215,000	68,138	68,138	351,276
2029	2.00%	-	215,000	65,988	65,988	346,976
2030	1.50%	-	220,000	63,838	63,838	347,676
2031	2.00%	-	225,000	62,188	62,188	349,376
2032	2.00%	-	230,000	59,938	59,938	349,876
2033	2.00%	-	235,000	57,638	57,638	350,276
2034	2.00%	-	245,000	55,288	55,288	355,576
2035	2.00%	-	245,000	52,838	52,838	350,676
2036	2.00%	-	245,000	50,388	50,388	345,776
2037	2.00%	-	255,000	47,938	47,938	350,876
2038	2.00%	-	260,000	45,388	45,388	350,776
2039	2.00%	-	555,000	42,788	42,788	640,576
2040	2.00%	-	1,335,000	37,238	37,238	1,409,476
2041	2.21%	-	1,360,000	23,888	23,888	1,407,776
2042	2.21%	-	800,000	8,847	8,847	817,694
		<u>\$ -</u>	<u>7,790,000</u>	<u>1,135,919</u>	<u>1,135,919</u>	<u>10,061,838</u>

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the
Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
Jacksonville Wastewater Utility

We have audited, 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, the financial statements of Jacksonville Wastewater Utility as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Jacksonville Wastewater Utility's basic financial statements, and have issued our report thereon dated February 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Jacksonville Wastewater Utility's internal control over financial reporting (internal control) as a basis for designing 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 Jacksonville Wastewater Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of Jacksonville Wastewater Utility'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. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jacksonville Wastewater Utility'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*.

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.

February 27, 2023

EGP, PLLC

Certified Public Accountants and Consultants
Bryant, Arkansas