

NORTH LITTLE ROCK WASTE WATER UTILITY
FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(With independent auditor's report thereon.)

Table of Contents

	Page
Introduction	1
Independent Auditor's Report	2-4
Required Supplementary Information: Management's Discussion and Analysis	5-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14-29
Required Supplementary Information:	
Budgetary Comparison Schedule	30
Schedule of Changes in the Net Pension Liability and Related Ratios	31
Schedule of Contributions	32
Schedule of Changes in the Other Post-Retirement Benefit Liability and Related Ratios	33
Other Supplementary Information	
Schedule of Operating Expenses	34
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 <i>Government Auditing Standards</i>	35-36

INTRODUCTION

The North Little Rock Waste Water Utility, hereafter referred to as the “Utility” is pleased to present its financial report for the years ending December 31, 2021 and 2020 developed in compliance with Governmental Accounting Standards.

Mission

The mission of the Utility is to provide safe, low cost, high quality sewer service to the citizens of North Little Rock, Arkansas and other areas as directed. This service in general includes the collection, treatment and disposal of the treated water into the Arkansas River in an environmentally sound matter.

Summary of Organization

The Utility was established by the North Little Rock City Council in 1962. The City Council appointed a five member commission to oversee its operations. Each commissioner is appointed for a five year period, with any reappointment approved by the City Council. The commission meets in open public session on the second Tuesday of each month. The Utility’s day to day operations are managed by a professional Director with assistance from the senior management. The Utility has no taxing power. Operational and maintenance costs are funded from customer fees and charges. At the end of 2021, the utility provided service to approximately 40,000 customers. The acquisition and construction of capital assets are funded by customer revenues, contributions from developers and sewer improvement districts and from construction loans. The Utility maintains and operates four treatment plants, 74 pump stations and hundreds of miles of sewer lines. As of December 31, 2021, the Utility had 88 full time employees dedicated to providing sewer service to the customer base.

Responsibility and Controls

The Utility has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books reflect only authorized transactions. The internal accounting controls are evaluated on an ongoing basis by the Finance Manager. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Utility’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent auditors, EGP, PLLC, is included in this report.

Independent Auditor's Report

North Little Rock Waste Water Treatment Committee
North Little Rock Waste Water Utility

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of North Little Rock Waste Water Utility, a component unit of the City of North Little Rock, Arkansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise North Little Rock Waste Water Utility's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the North Little Rock Waste Water Utility, as of December 31, 2021 and 2020, and the changes in its financial position and its cash flows 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 North Little Rock Waste Water 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 opinion.

Responsibilities of Management for the Financial Statements

North Little Rock Waste Water 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 North Little Rock Waste Water Utility's ability to continue as a going concern for one year after the date that the financial statements are available to be 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 North Little Rock Waste Water 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 North Little Rock Waste Water 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.

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 on pages 5 through 10 and 30 through 33 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Little Rock Waste Water Utility's financial statements as a whole. The introductory section and schedule of operating expenses on pages 1 and 34, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relate 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 schedule of operating expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Wastewater Utility and do not purport to, and do not present fairly the financial position of the City of North Little Rock as of December 31, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2022 on our consideration of North Little Rock Waste Water Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Little Rock Waste Water Utility, internal control over financial reporting.

EGP, PLLC

March 31, 2022

Certified Public Accountants & Consultants
North Little Rock, Arkansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Utility's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Our current rate ordinance was adopted on October 26, 2015 and it includes rate adjustments effective on January 1st of the years 2016 through 2020. The rate of \$18.05 for a minimum usage of 400 cubic feet and \$5.64 per 100 cubic feet of usage after 400 was effective for the entire year of 2021. The last rate change was as of 1/1/2020. There is a minimum charge of four 100 cubic feet for all customers.

The Utility realized an increase in its cash and certificates of deposit balance by around \$3,500,000 during 2021. The Utility did not have to cash any certificates during the year. There are a number of construction in progress projects which the accumulated cash will be used for in the coming year.

The Statement of Net Position as of 12/31/20 included a FEMA receivable in the amount of \$1,132,643. This receivable was for flood damage, the Utility suffered in May 2019 at two of its treatment plants. This money was received in April of 2021.

The Utility increased its property value less depreciation by around \$960,000 during 2021. This increase was mainly due to construction in progress projects.

The Arkansas Natural Resources Commission (ANRC) approved loan funds from the Arkansas Clean Water State Revolving Loan Fund in the amount of \$30,000,000 on October 15, 2016. The interest rate is 1.25 percent with an annual servicing fee of 1.00 percent. The Utility started paying principal payments on this loan in April 2021. At the end of December 2021, the Utility had been disbursed the total amount of \$17,985,135 for this loan. Towards the end of 2021, the Utility was in negotiations with ANRC to close this loan at the current balance.

The Statement of Net Position shows an increase of around \$6,300,000 for the year of 2021. This access of total revenues over total expenses is a good indication of the Utility's overall financial health.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Utility's financial condition and performance.

The financial statements report information about the Utility using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; notes to the financial statements and other supporting schedules.

The statement of net position presents the financial position of the Utility on a full accrual historical cost basis. This statement presents information on all of the assets and liabilities with the difference reported as net position. Over time, increases and decreases in net assets are one indicator of whether the financial position is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the 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 flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipt and disbursement information only.

The notes to the financial statements and supplementary information are provided to disclose information that is essential to a full understanding of the material data provided in the statements.

The financial statements were prepared by the Utility's staff from its detailed transactions for the years ending December 31, 2021 and 2020. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The comparative financial statements provide information about the financial activities of the North Little Rock Waste Water Utility. The following information is an analysis of the comparison between the two years presented in the financial statements. The amounts for the year ending December 31, 2019 are also shown for reference purposes.

Statement of Net Position:

This statement indicates that the Utility had an adequate amount of liquid assets as of the end of the year and a reasonable level of unrestricted net position. The other non-current liability total amount for 2021 includes an amount of \$1,860,200 for the reserve for bio-solid removal. This reserve account was set up to accrue a liability for the cost of removing sludge from the lagoons at all of the treatment plants. The current ratio is an indication of short-term liability and is calculated by dividing current assets by current liabilities. A resulting number greater than one indicates current assets in excess of current needs which can be applied to future periods. The current ratio as of December 31, 2021, was 4.05 and the ratio for 2020 and 2019 was 2.97 and 4.17, respectively. Another ratio which is shown on this statement is the debt utilization ratio which indicates what percentage the total debt is to total assets. This ratio is calculated by dividing total notes payable by total assets and was 28% for the year ended December 31, 2021. The debt utilization ratio for 2020 and 2019 was 31% and 32%, respectively.

Analysis of Statement of Net Position

	2021	2020	2019
Current Assets	\$ 17,973,708	\$ 16,130,414	\$ 17,001,304
Net Property & Equipment	\$ 129,161,536	\$ 128,203,154	\$ 122,603,668
Other Non-Current Assets and Deferred Outflows	\$ 6,421,745	\$ 5,929,151	\$ 4,797,796
Current Liabilities	\$ 4,438,428	\$ 5,438,531	\$ 4,079,669
Bonds Payable	\$ 40,261,682	\$ 42,721,590	\$ 43,724,708
Other Non-Current Liabilities and Deferred Inflows	\$ 5,316,320	\$ 4,895,507	\$ 5,302,207
Invested in Capital Assets, net of related debt	\$ 85,841,989	\$ 82,051,561	\$ 76,712,415
Restructured Net Assets	\$ 3,763,241	\$ 3,502,244	\$ 3,027,798
Unrestricted Net Assets	\$ 13,935,329	\$ 11,648,286	\$ 11,555,971

Statement of Revenues, Expenses and Changes in Net Position:

For the year ending December 31, 2021, the Utility had an operating income of \$7,354,438 with an overall increase in net position of \$6,338,468 after the non-operating income and expenses were accounted for.

**Anaylsis of Statement of Revenues, Expenses and
Changes in Net Position**

	2021	2020	2019
Operating Revenue	\$ 24,357,675	\$ 23,087,092	\$ 22,979,810
Operating Expenses	\$(17,003,237)	\$(17,637,090)	\$(17,030,792)
Operating Income	\$ 7,354,438	\$ 5,450,002	\$ 5,949,018
Non-Operating Revenue	\$ 97,965	\$ 1,662,243	\$ 316,660
Non-Operataing Expenses	\$ 1,113,935	\$ 1,206,338	\$ 1,100,864
Increase in Net Position	<u>\$ 8,566,338</u>	<u>\$ 8,318,583</u>	<u>\$ 7,366,542</u>

Of the total operating revenue for 2021, 95% comes from the rates that the customer base pays for their sewer service.

The operating revenue besides that amount directly from the customer base includes late fees collected on past due billings, tie-on and permit fees, a treatment fee accessed to another city per a court order agreement and plan review charges.

The total operating expense is comprised of labor, deprecation and other. The labor cost includes benefits (insurance, training, matching FICA, and pension) as well as salary. The other operating expenses include supplies, utilities, routine repair and maintenance, outside services and any other non-labor or depreciation expense. The operating expenses have remained fairly consistent the past three years.

The non-operating revenue for 2020 included \$1,506,807 for funds received from FEMA for the flood damage which occurred in 2019. In 2019, insurance proceeds were received for fire damage which happened in 2018.

The non-operating expense includes interest expense on all loans.

Capital Asset Information:

As of December 31, 2021, the Utility had a property value after accumulated depreciation of \$129,161,536. This amount includes construction in progress as well as fixed assets. The major increase in property value before depreciation was the result of various construction in progress projects both completed and in progress. The construction in progress jobs included various projects for lining and pipe bursting of sewer lines, generator projects and a solar project. The capital asset additions were funded with both bond proceeds and reserves.

Debt Information:

The following schedule shows the debt activity for the year.

**SCHEDULE OF BONDS PAYABLE
DECEMBER 31, 2021**

DESCRIPTION	1/1/21 BALANCE	DRAWS RECEIVED	PAYMENTS	12/31/21 BALANCE
SERIES 2001	\$ 2,245,340.27		\$ 615,884.26	\$ 1,629,456.01
SERIES 2008	\$ 8,632,073.55		\$ 682,021.76	\$ 7,950,051.79
SERIES 2012	\$16,684,262.76		\$ 929,361.19	\$15,754,901.57
SERIES 2016	\$18,589,916.00	\$ 597,957.00	\$ 1,202,735.55	\$17,985,137.45
	<u>\$46,151,592.58</u>	<u>\$ 597,957.00</u>	<u>\$ 3,430,002.76</u>	<u>\$43,319,546.82</u>

The payments recorded for the revolving loan funds were the scheduled six-month payments. The Series 2001 loan will be paid off in April, 2024. The Series 2008 loan will be paid off in October, 2031. The Series 2012 loan will be paid off in October, 2035. The Series 2016 will be paid off in October 2040.

Budget to Actual Comparison:

The budget is prepared by the Utility's Finance Manager and is based on the previous year's dollar amounts. The previous years' amounts are adjusted to reflect the projected activity for the current year. As with any budget, there were differences with the actual amounts recorded for the year.

The total operating revenue was more than the amount budgeted. The actual usage for the customers was higher than what was budgeted, thus the customer revenue was higher than expected.

The budgeted total operating expense was higher than actual. The budget included the amount of \$1,000,000 for emergency repairs and only around \$226,000 was expensed. The budget also included some new labor positions which were not filled and some repair and maintenance of equipment which did not have to be completed.

Analysis of Planned Activity for 2022:

The Utility has completed a financial plan study with an outside consultant and the rates which was recommended for the next five years have been approved, with the first rate change effective on 4/1/2022. The Utility will also close on a new loan from the Arkansas Natural Resources Commission in May of 2022. This loan will be in the amount of \$45,000,000 and will have an interest rate of 1.75%. The loan proceeds will be used for several larger line interceptor rehabilitation projects as well as the Maumelle to White Oak Diversion project. The Utility also has budgeted for several secondary sewer line rehabilitation projects which have a budgeted total amount of around \$7,800,000. These funds will come from the Utility's reserves and rates.

Contacting the Management:

The financial report is designed to provide our customers, citizens and creditors with a general overview of the Utility's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact our administration office.

North Little Rock Waste Water Utility
Statement of Net Position
December 31, 2021 and 2020
(See independent auditor's report.)

	<u>2021</u>	<u>2020</u>
<u>Assets and Deferred Outflows of Resources</u>		
Current Assets		
Cash	\$ 5,475,273	2,269,225
Certificates of deposit	9,758,971	9,716,916
Accrued interest receivable	5,556	25,016
Accounts receivable (net of allowance of \$10,000)	2,604,638	2,874,884
FEMA grant receivable	-	1,132,643
Inventory	33,195	30,677
Prepaid expenses	96,075	81,053
Total Current Assets	<u>17,973,708</u>	<u>16,130,414</u>
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalents	2,488,970	2,232,850
Certificates of deposit	513,029	512,108
Other assets	761,242	757,286
Property, plant and equipment, net	129,161,536	128,203,154
Notes receivable, net of current portion	171,195	175,673
Total Noncurrent Assets	<u>133,095,972</u>	<u>131,881,071</u>
Total Assets	<u>151,069,680</u>	<u>148,011,485</u>
Deferred Outflows of Resources		
Deferred outflows related to pensions	2,487,309	2,251,234
Total Deferred Outflows of Resources	<u>2,487,309</u>	<u>2,251,234</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 153,556,989</u></u>	<u><u>150,262,719</u></u>

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

	<u>2021</u>	<u>2020</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current Liabilities		
Accounts payable	\$ 61,875	587,360
Other current liabilities	573,053	584,998
Accrued absences	745,635	841,170
Current portion of long-term debt	3,057,865	3,430,003
Total Current Liabilities	<u>4,438,428</u>	<u>5,443,531</u>
Noncurrent Liabilities		
Reserve for bio-solids disposal	1,860,200	1,685,690
Pension liability	1,373,351	2,451,855
OPEB obligation	144,467	140,768
Bonds payable, net of current portion	40,261,682	42,721,590
Total Noncurrent Liabilities	<u>43,639,700</u>	<u>46,999,903</u>
Total Liabilities	<u>48,078,128</u>	<u>52,443,434</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	1,938,302	617,194
Total Deferred Inflows of Resources	<u>1,938,302</u>	<u>617,194</u>
Total Liabilities and Deferred Inflows of Resources	<u>50,016,430</u>	<u>53,060,628</u>
Net Position		
Net investment in capital assets	85,841,989	82,051,561
Restricted	3,763,241	3,502,244
Unrestricted	13,935,329	11,648,286
Total Net Position	<u>103,540,559</u>	<u>97,202,091</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 153,556,989</u>	<u>150,262,719</u>

North Little Rock Waste Water Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2021 and 2020
(See independent auditor's report)

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Service charges	21,856,313	20,426,491
Service charges - industry	1,709,151	1,738,880
Service charges - violations	260,432	218,846
Service charges - late fees	352,995	387,584
Permits and inspections	50,450	53,295
Other operating income	128,334	261,996
Total Operating Revenues	<u>24,357,675</u>	<u>23,087,092</u>
Operating Expenses		
Cost of sales	9,266,886	10,256,537
Operating expenses	7,736,351	7,380,553
Total Operating Expenses	<u>17,003,237</u>	<u>17,637,090</u>
Operating Income	<u>7,354,438</u>	<u>5,450,002</u>
Non-Operating Income		
Interest income	46,453	150,370
Gain on disposal of property, plant and equipment	35,723	-
Grant revenue	-	1,506,807
Other non-operating income	15,789	5,066
Total Non-Operating Income	<u>97,965</u>	<u>1,662,243</u>
Non-Operating Expenses		
Interest expense	1,113,935	1,153,556
Loss on disposal of assets	-	52,782
Total Non-Operating Expenses	<u>1,113,935</u>	<u>1,206,338</u>
Increase in Net Position	6,338,468	5,905,907
Net position - beginning of period	<u>97,202,091</u>	<u>91,296,184</u>
Net Position - End of Period	<u>\$ 103,540,559</u>	<u>97,202,091</u>

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

North Little Rock Waste Water Utility
Statement of Cash Flows
For the Years Ended December 31, 2021 and 2020
(See independent auditor's report.)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Cash received from:		
Customers	\$ 25,636,708	21,557,336
Other operating income	128,334	1,307,386
Cash payments for:		
Cash paid to suppliers for goods and services	(7,985,628)	(9,906,541)
Cash paid to or on behalf of employees for services	(4,583,029)	(4,309,049)
Net Cash Provided by Operating Activities	<u>13,196,385</u>	<u>8,649,132</u>
Cash Flows From Capital and Related Financing Activities:		
Repayment of long-term debt and bonds payable	(3,430,003)	(2,166,545)
Proceeds from draws on bond	597,957	2,426,885
Acquisition and construction of capital assets	(5,865,519)	(10,337,153)
Proceeds from disposal of property, plant and equipment	38,557	13,889
Interest paid	(1,113,935)	(1,153,556)
Net Cash (Required) by Capital and Related Financing Activities	<u>(9,772,943)</u>	<u>(11,216,480)</u>
Cash Flows From Investing Activities:		
Investment in certificates of deposit	(10,272,000)	(10,229,024)
Proceeds from maturity of certificates of deposit	10,229,024	10,059,081
Interest and other income received	81,702	1,733,018
Net Cash Provided (Required) by Investing Activities	<u>38,726</u>	<u>1,563,075</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,462,168	(1,004,273)
Cash and cash equivalents at beginning of year	4,502,075	5,506,348
Cash and Cash Equivalents at End of Year	<u>\$ 7,964,243</u>	<u>4,502,075</u>
Cash and Cash Equivalents		
Unrestricted cash and cash equivalents	\$ 5,475,273	2,269,225
Restricted cash and cash equivalents	2,488,970	2,232,850
Total Cash and Cash Equivalents	<u>\$ 7,964,243</u>	<u>4,502,075</u>

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

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 7,354,438	5,450,002
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	4,904,303	4,670,996
(Increase) decrease in assets:		
Accounts receivable	274,724	(232,878)
Inventory	(2,518)	(3,608)
Insurance receivable	-	1,045,390
Grant receivable	1,132,643	(1,034,882)
Other assets	(18,978)	(282,301)
Deferred outflows	(236,075)	(657,291)
Increase (decrease) in liabilities:		
Accounts payable	(525,485)	(61,082)
Accrued absences	(95,535)	110,812
Other liabilities	(912,240)	(272,338)
Deferred inflows	1,321,108	(83,688)
Net Cash Provided by Operating Activities	<u><u>\$ 13,196,385</u></u>	<u><u>8,649,132</u></u>

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

1. Summary of Significant Accounting Policies

Principles of Operation

The North Little Rock Waste Water Utility (the “Utility”) (a component unit of the City of North Little Rock) is financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements present only the North Little Rock Waste Water Utility and do not purport to, and do not, present fairly the financial position of the City of North Little Rock, Arkansas, as of December 31, 2021 and 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

The Utility follows Government Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates Financial Accounting Standards Board (“FASB”) pronouncements and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The Utility uses the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred regardless of the related cash flows. The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of management’s estimates. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Utility considers certificates of deposits and all highly liquid cash investments with original maturities of three months or less to be cash equivalents.

Certificates of Deposit

Certificates of deposit with original maturities of greater than three months. Certificates of deposit are recorded at amortized cost which approximates fair value.

Accounts Receivable

Sales of sewer services are made on open account to customers located in North Little Rock, Arkansas and surrounding areas. The Utility utilizes the allowance method of accounting for uncollectible accounts receivable. The Utility reviews its customer accounts on a periodic basis and records a reserve for specific amounts that management determines may not be collected. In addition, the Utility has established a general reserve for potential uncollectible accounts based on historical bad debts. Amounts are written off at the point when collection attempts have been exhausted, which is usually 120 days after the account is past due.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Utility's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Utility. Accounts receivable are net of an allowance for doubtful accounts of \$10,000 at both December 31, 2021 and 2020.

Inventory

Inventory consists of materials and supplies valued at the lower of cost or market, using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost unless otherwise noted. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets ranging from three to fifty years. Assets are constructed and acquired by four methods: utility work crews, independent contractors financed by utility funds, contributions to the utility by independently financed waste water improvement districts, and contributions to the utility by real estate developers in conjunction with a property development. Assets acquired from improvement districts and real estate developers result in donated capital and have been so classified. Donated fixed assets are valued at their estimated fair market value on the date donated. The Utility capitalizes all purchases over \$1,000 that have at least a three year useful life. Costs of repairs and maintenance that do not improve or extend the assets lives are charged to expense as incurred.

Long-Lived Assets

The Utility reviews long-lived assets and certain identifiable intangibles held and used by the Utility for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended December 31, 2021 and 2020, no impairment has been identified.

Net Position

Net position comprises the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net investment in capital assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted for debt service

This component of net position consists of 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. When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the Utility's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Unrestricted

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

This component of net position consists of net assets that do not meet the definition of “net investment in capital assets” or “restricted.”

Accrued Absences

Each employee may accumulate a maximum of thirty days of vacation and sixty days of sick leave. The Utility has accrued a liability for vacation and sick leave pay, which has been earned but not taken by employees.

Reserve for Bio-Solids Disposal

The Utility provides annually for the estimated cost of bio-solids removal from the treatment plant lagoons, which occurs every five to fifteen years for each lagoon.

Budgets and Budgetary Accounting

Budgeted revenues and expenses are prepared using the economic resources measurement focus and the accrual basis of accounting. The original budgets adopted by the Utility were not amended during the years ended December 31, 2021 and 2020.

Deferred Outflows/Inflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources, which represents consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then. In addition, the statement net position will sometimes report a separate section for deferred inflows of resources, which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until then. The Utility utilizes deferred outflows and deferred inflows to account for changes regarding pension liabilities.

2. Description of Funds

The Utility complies with all state and local laws and regulations as well as the provisions of certain contracts requiring the use of separate funds. The required funds used by the Utility include the following:

Sewer Fund

The Sewer Fund was established for the purpose of depositing all revenues derived from the operation of the system. Revenues are for the payment of reasonable and necessary expenses of operation and maintenance of the system, payment of principal, interest and trustee’s fees on bonds, reserve for contingencies, and providing for a depreciation fund.

Operating and Maintenance Fund

The Operating and Maintenance Fund is used to pay the reasonable and necessary monthly expenses of operation, and repair and maintenance of the Utility. The fund is maintained by required monthly transfers from the Sewer Fund.

Sewer Depreciation Fund

The Sewer Depreciation Fund is restricted to paying the costs of needed capital improvements or replacements; provided, however, that monies in the Sewer Depreciation Fund may be used to the extent necessary to prevent a default in the payment of the principal and interest on bonds as they become due. The fund is maintained by required monthly transfers from the Sewer Fund.

Rehabilitation Fund

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

The Rehabilitation Fund was established in 2007 by city ordinance #7973 (as amended by city ordinance #8083) to provide for system repairs and replacements from the proceeds of 2007 rate increases. The ordinance requires that a monthly transfer of \$41,667 (\$500,000 annually) be made from the Sewer Fund to provide for repairs and replacements.

2001 Revolving Loan Fund

The 2001 Revolving Loan Fund was established in 2001 and is restricted to the recording of activity in connection with the 2001 Revolving Loan Fund.

2008 Revolving Loan Fund

The 2008 Revolving Loan Fund was established in 2008 and is restricted to the recording of activity in connection with the 2008 Revolving Loan Fund.

2012 Revolving Loan Fund

The 2012 Revolving Loan Fund was established in 2012 and is restricted to the recording of activity in connection with the 2012 Revolving Loan Fund.

2016 Revolving Loan Fund

The 2016 Revolving Loan Fund was established in 2016 and is restricted to the recording of activity in connection with the 2016 Revolving Loan Fund.

3. Cash and Certificates of Deposit

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Utility manages its exposure to declines in fair values by limiting investments to securities with a maturity of not more than five years from the date of purchase and by attempting to match investment maturities with cash flow requirements.

Credit risk is the risk that the issuer of counterparty will not fulfill its obligations. To minimize exposure to credit risk, the Utility's investment policy specifies the types of securities in which the Utility may invest. Generally, this is accomplished by investing in certificates of deposit with maturities of less than five years.

Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned to the Utility. At December 31, 2021 and 2020, the Utility's deposits with two financial institutions were fully insured or collateralized and totaled \$18,434,933 and \$16,352,054, respectively.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

4. Restricted Funds

The Utility has certain debt services funds with the Arkansas Development Finance Authority (“ADFA”), which are restricted to various uses. The Utility is required to deposit monthly with the ADFA, to be held in trust, an amount equal to 1/6 of the interest to become due on the next ensuing interest payment plus 1/6 of the next installment of principal next due on the Bonds. The required deposits shall be reduced by any amount in the Debt Service Fund available for meeting the purpose for which a deposit is required to be made. The total deposits, held in trust as of December 31, 2021 and 2020, were \$761,242 and \$757,286, respectively.

In addition, certain funds included in cash and cash equivalents and certificates of deposit are restricted to construction, rehabilitation or capital improvements. Those funds totaled \$3,001,999 and \$2,744,958 as of December 31, 2021 and 2020, respectively.

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31:

	2020	Additions	Transfers	Disposals	2021
Land	\$ 3,139,809	-	-	-	3,139,809
Plant and equipment	195,393,611	696,932	7,273,236	(74,157)	203,289,622
Construction in process	11,130,477	5,168,587	(7,273,236)	-	9,025,828
	<u>209,663,897</u>	<u>5,865,519</u>	<u>-</u>	<u>(74,157)</u>	<u>215,455,259</u>
Less accumulated depreciation	<u>(81,460,743)</u>	<u>(4,904,303)</u>	<u>-</u>	<u>71,323</u>	<u>(86,293,723)</u>
	<u>\$ 128,203,154</u>	<u>961,216</u>	<u>-</u>	<u>(2,834)</u>	<u>129,161,536</u>
	2019	Additions	Transfers	Disposals	2020
Land	\$ 3,139,809	-	-	-	3,139,809
Plant and equipment	187,345,462	301,947	8,006,352	(260,150)	195,393,611
Construction in process	9,101,623	10,035,206	(8,006,352)	-	11,130,477
	<u>199,586,894</u>	<u>10,337,153</u>	<u>-</u>	<u>(260,150)</u>	<u>209,663,897</u>
Less accumulated depreciation	<u>(76,983,226)</u>	<u>(4,670,996)</u>	<u>-</u>	<u>193,479</u>	<u>(81,460,743)</u>
	<u>\$ 122,603,668</u>	<u>5,666,157</u>	<u>-</u>	<u>(66,671)</u>	<u>128,203,154</u>

6. Long-Term Debt

In 2001, the Utility received a \$10,000,000 program award available for approved construction. The interest rate on the 2001 revolving loan fund is at 2.25% and a financing fee at 1% of the outstanding principal. Repayment of principal, interest and financing fee of the 2001 loan began in October 2005 with payments to be made semi-annually over twenty years.

In 2008, the Utility received a \$14,000,000 program award available for approved construction. The interest rate on the 2008 revolving loan fund is at 1.75% and a financing fee at 1% of the outstanding principal with semi-

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

annual payments of interest and financing fee during the project construction period. Repayment of principal, interest and financing fee of the 2008 loan began in April 2012 with payments to be made semi-annually over twenty years.

In 2012, the Utility received a \$21,000,000 program award available for approved construction. The interest rate on the 2012 revolving loan fund is at 1.5% and a financing fee at 1% of the outstanding principal with semi-annual payments of interest and financing fee during the project construction period. Repayment of principal, interest and financing fee of the 2012 loan will begin in April 2016 with payments to be made semi-annually over twenty years.

In 2016, the Utility received a \$30,000,000 program award available for approved construction. The interest rate on the 2016 revolving loan fund is at 1.25% and a financing fee at 1% of the outstanding principal with semi-annual payments of interest and financing fee during the project construction period. Repayment of principal, interest and financing fee of the 2016 loan will begin in April 2021 with payments to be made semi-annually over twenty years. As of December 31, 2021, \$10,812,125 was left to be drawn on this loan.

The Utility has outstanding revenue bonds from direct borrowings totaling \$43,319,547 and \$46,151,593 for the years ending December 31, 2021 and 2020, respectively. The Utility has specifically pledged the revenues of the utility system for the repayment of the bonds. The above notes payable contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding notes payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Take possession of the collateralized properties, (3) Gain access to other assets of the Utility to protect the lender's interest, and (4) Use any remedy allowed by state or federal law. The Utility is required to establish rates sufficient to pay the expenses and operation and maintenance of the water system, to pay the principal of and premium, if any, and interest on all outstanding bonds to which system revenues are pledged as they become due and make required deposits into the Sewer Depreciation Fund. The Utility also covenants that the rates shall, from time to time be increased to such an amount as will provide revenues at least sufficient for the above purposes. The Utility was in compliance with all debt covenants for the years ended December 31, 2021 and 2020.

The following is a summary of the bonds payable activity at December 31:

	2020	Additions	Retirements	2021
Bonds payable	<u>\$ 46,151,593</u>	<u>597,957</u>	<u>(3,430,003)</u>	<u>43,319,547</u>
	2019	Additions	Retirements	2020
Bonds payable	<u>\$ 45,891,253</u>	<u>2,426,885</u>	<u>(2,166,545)</u>	<u>46,151,593</u>

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

Aggregate payments of the revolving loan fund balance outstanding are as follows for the years ending December 31:

	2001	2008	2012	2016	Total
Principal:					
2022	\$ 636,063	700,900	952,745	768,157	3,057,865
2023	656,904	720,307	976,713	785,538	3,139,462
2024	336,489	740,252	1,001,283	803,312	2,881,336
2025	-	760,748	1,026,471	821,488	2,608,707
2026	-	781,812	1,052,294	840,076	2,674,182
2027-2030	-	4,246,033	5,672,118	4,494,248	14,412,399
2031-2035	-	-	5,073,278	5,026,231	10,099,509
Thereafter	-	-	-	4,446,086	4,446,086
	<u>\$ 1,629,456</u>	<u>7,950,052</u>	<u>15,754,902</u>	<u>17,985,137</u>	<u>43,319,547</u>
Interest:					
2022	47,831	136,080	387,955	400,369	972,235
2023	26,990	123,730	363,987	382,988	897,695
2024	5,468	111,038	339,417	365,214	821,137
2025	-	97,995	314,229	347,038	759,262
2026	-	84,591	288,406	328,450	701,447
2027-2030	-	208,527	1,031,382	1,348,382	2,588,291
2031-2035	-	-	289,506	816,400	1,105,906
Thereafter	-	-	-	228,020	228,020
	<u>\$ 80,289</u>	<u>761,961</u>	<u>3,014,882</u>	<u>4,216,862</u>	<u>8,073,994</u>

7. Pension Plan

Plan Description

North Little Rock Waste Water Utility Defined Pension Plan (the “Plan”) is a single-employer sponsored plan administered by North Little Rock Waste Water Utility (the “Utility”). The Plan provides retirement, death and disability benefits to plan members and beneficiaries. The Utility’s Board of Commissioners establishes benefit provisions and all other requirements. The Plan does not issue stand-alone financial statements, nor is it included in another public employee retirement system plan’s financial statements. Participants are not required to contribute to the plan.

Benefits Provided

The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Retirement benefits are based on 2% of average annual compensation for the last five years of employment multiplied by the employee’s years of credited service up to 30 years. Employees are fully vested after five years. Employees eligible for retirement benefits after attaining 65 years of age with five years of credited service and are eligible for early retirement after attaining age 55 with ten years of credited services. The Utility is required to contribute to the Plan at an actuarially determined rate.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

The Plan does not provide for automatic cost of living adjustments ("COLA") although the plan sponsor may make changes. The plan has not given a retiree increase. Therefore, any increases are not substantively automatic and no COLA is included in the determination of the total pension liability.

As of the measurement date on July 1, 2021, the Plan had 74 active employees, 38 inactive employees entitled to, but not yet receiving benefits and 50 inactive employees or beneficiaries currently receiving benefits. As of July 1, 2020, the Plan had 78 active employees, 35 inactive employees entitled to, but not yet receiving benefits and 46 inactive employees or beneficiaries currently receiving benefits.

Contributions

Actuarially determined contributions are determined based on actuarial calculations performed by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Contributions are based on the employee's annual covered salary. The Utility's contribution rate and actuarially determined contribution for the years ended December 31, 2021 and 2020, were 12.77 and 17.01 percent and \$491,142 and \$657,970, respectively. Actual contributions for the years ended December 31, 2021 and 2020, equaled \$600,000 and \$750,000, or 122.2 and 113.9 percent of required contributions, respectively.

Net Pension Liability

The Utility's net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, as of June 30, 2021 and 2020:

The assumptions used were as follows:

Cost Method:	The "entry age normal cost method" has been used in determining retirement cost. The method used for the July 1, 2013, and previous valuations was the aggregate funding method.
Amortization Method:	The entry age normal cost method also requires an amortization method to be used in calculating the range of recommended contributions. The Unfunded Liabilities are amortized on a level of percentage of salary method and a range of 10 to 15 years is shown.
Pre-Retirement Mortality:	RP 2000 table.
Post-Retirement Mortality:	RP 2000 table. The mortality table used for the July 1, 2013, and previous valuation was the Unisex Pensioner 1984 table (UP84).
Mortality Projection:	Future mortality improvements were not considered in developing the suggested contribution for this report. The liabilities are significantly more volatile with regards to the other assumptions (i.e., investment return, retirement age, and turnover) than with mortality improvement.
Voluntary Terminations:	T-2 table.
Investment Rate of Return:	6.5%, net of Plan investment expense, including inflation
Inflation:	3.0%
Expected Retirement Pattern:	Retirement was assumed to occur in the following pattern beginning with the July 1, 2021 valuation: 5% at ages 55 to 61; 20% at age 62; 5% at ages 63 to 64; 50% at age 65; 25% at ages 66 to 69; and 100% 70 and over. Prior to

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

July 1, 2021 all participants were assumed to retire on their normal retirement age.
 Assumed Investment Return: 6.50% beginning with July 1, 2017 (7.50% for prior years).
 Salary Growth: 3.50% annually starting in 2017 (4.50% for prior years), including inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as both of December 31, 2021 and 2020, are summarized in the following table:

2021		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	49%	4.50%
Fixed Income	30%	1.75%
Real estate	10%	4.25%
Foreign equity	6%	6.25%
Cash	5%	0.00%
Total	100%	3.53%
Inflation		3.00%
2020		
Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	49%	4.50%
Fixed Income	30%	1.75%
Real estate	10%	4.25%
Foreign equity	6%	6.25%
Cash	5%	0.00%
Total	100%	3.53%
Inflation		3.00%

The long-term expected rate of return on 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 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.

Single Discount Rate

A single discount rate of 6.5% 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 6.5%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was not available to make all projected future benefit payments of current plan members. Therefore, the single discount rate was calculated and applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

Changes in the net pension liability for the year ended December 31, 2021, were as follows:

	Total Pension Liability	Total Fiduciary Net Position	Net Pension Liability
Balance, July 1, 2020	\$ 15,489,098	13,037,243	2,451,855
Changes for the year:			
Service cost	359,368	-	359,368
Interest	1,006,486	-	1,006,486
Difference between expected and actual experience	476,534	-	476,534
Contributions—employer	-	750,000	(750,000)
Net investment income	-	2,789,277	(2,789,277)
Benefit payments including refunds of employee contributions	(728,145)	(728,145)	-
Administrative expense	-	-	10,804
Change in assumptions	454,581	-	454,581
Change in Benefit Provisions	153,000	-	153,000
Other charges	-	(10,804)	-
Net changes	<u>1,721,824</u>	<u>2,800,328</u>	<u>(1,078,504)</u>
Balance, June 30, 2021	<u>\$ 17,210,922</u>	<u>15,837,571</u>	<u>1,373,351</u>

Changes in the net pension liability for the year ended December 31, 2020, were as follows:

	Total Pension Liability	Total Fiduciary Net Position	Net Pension Liability
Balance, July 1, 2019	\$ 14,919,069	13,165,165	1,753,904
Changes for the year:			
Service cost	359,055	-	359,055
Interest	972,926	-	972,926
Difference between expected and actual experience	(141,901)	-	(141,901)
Contributions—employer	-	750,000	(750,000)
Net investment income	-	(261,577)	261,577
Benefit payments including refunds of employee contributions	(620,051)	(620,051)	-
Administrative expense	-	-	-
Changes in assumptions	-	-	-
Other charges	-	3,706	(3,706)
Net changes	<u>570,029</u>	<u>(127,922)</u>	<u>697,951</u>
Balance, June 30, 2020	<u>\$ 15,489,098</u>	<u>13,037,243</u>	<u>2,451,855</u>

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represent the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

		December 31, 2021		December 31, 2020	
	Discount Rate	Total Pension Liability	Net Pension Liability	Total Pension Liability	Net Pension Liability
1% decrease	5.50%	\$ 19,250,421	3,412,850	\$ 17,195,250	4,158,007
Current discount rate	6.50%	17,210,922	1,373,351	15,489,098	2,451,855
1% increase	7.50%	15,486,101	(351,470)	14,025,795	988,552

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended December 31, 2021 and 2020, the Utility recognized pension expense of \$606,529 and \$706,972, respectively. At December 31, 2021 and 2020, the deferred outflows and inflows of resources were as follows:

	2021	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 428,745	389,656
Changes of assumptions		753,831	
Net difference between projected and actual earnings on Plan investments		704,733	1,548,646
		1,887,309	1,938,302
Employer contributions subsequent to measurement		600,000	-
Total		<u>\$ 2,487,309</u>	<u>1,938,302</u>
	2020		
Differences between expected and actual experience		\$ 33,814	593,789
Changes of assumptions		509,866	-
Net difference between projected and actual earnings on Plan investments		957,554	23,405
		1,501,234	617,194
Employer contributions subsequent to measurement		750,000	-
Total		<u>\$ 2,251,234</u>	<u>617,194</u>

The Utility contributed 600,000 and \$750,000 in 2021 and 2020, respectively, that are reported as deferred outflows of resources related to pensions result from contributions by the Utility made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the years ending December 31, 2021 and 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

2022	\$	5,685
2023		24,475
2024		(24,184)
2025		(288,712)
2026		108,185
Thereafter		123,558
	\$	<u>(50,993)</u>

Components of Net Pension Liability

The components of the net pension liability at June 30, 2021 and 2020, were as follows:

	2021	2020
Total pension liability	\$ 17,210,922	15,489,098
Plan's fiduciary net position	15,837,571	13,037,243
Net pension liability	<u>\$ 1,373,351</u>	<u>2,451,855</u>
Plan fiduciary net position as a percentage of total pension liability	92.02%	84.17%

8. Post-employment Benefits Other than Pensions (OPEB)

GASB requires that employers providing post-employment benefits other than pensions record and disclose annual other post-employment benefit ("OPEB") cost and a net OPEB liability in their financial statements and disclose other information about their OPEB plans, including the unfunded actuarial liability.

Plan Description

The Utility's defined benefit OPEB plan (the "OPEB plan") provides OPEB for Utility employees resulting from Arkansas statutes which provide that any municipal official or employee vested in any retirement plan that has 20 years of service and attains 55 years of age may continue to participate in the Utility's healthcare plan after retirement provided that they pay 100% of the group premium. The OPEB plan is a single-employer defined benefit OPEB plan and is administered by the Utility. Standalone financial statements are not issued for the OPEB Plan.

Benefits Provided

The OPEB plan provides medical, pharmacy, dental, and vision insurance to participants after retirement provided that they pay 100% of the group premium.

As the measurement date of December 31, 2021, the Plan had 84 active employees with no inactive employees entitled to, but not yet receiving benefits and no inactive employees or beneficiaries currently receiving benefits.

Annual OPEB Cost and Net OPEB Liability

The Utility's annual OPEB cost and liability is calculated using the Entry Age Normal Actuarial Cost Method as required by GASB 75. The Actuarially Determined Contribution and the Amortization Payment are not applicable due to the plan not being prefunded. The Utility recognizes a liability due to the implicit subsidy rate that is inherent of retiree healthcare costs by active employee healthcare costs when healthcare premiums paid by retirees and active employees are the same.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

As of both December 31, 2021 and 2020, the actuarial accrued liability for benefits was \$144,467 and \$140,768, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2021 and 2020, was \$4,800,377 and \$4,800,377, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.01% and 3.14%, respectively. The actuarial assumptions included a 1.65% investment rate of return and projected annual salary increases of 3.0%.

Health Insurance Premiums

Health insurance premiums are paid monthly and are the same for both pre-age 65 and ages 65 or older. Benefits pay secondary to Medicare. For the year ended December 31, 2021, annual retiree health insurance premiums were \$5,376 for a single coverage and \$11,910 for family coverage.

Healthcare Cost Trend Rate

The cost trend numbers used in the analysis were developed consistent with the Getzen model promulgated by the Society of Actuaries for use in long-term trend projection. The ACA excise tax will ultimately affect all plans. Due to the variability of the ACA excise tax by plan, the user needs to estimate the impact and adjust the trend. The excise tax could raise the average annual trend rate by 0.5% or more in each year.

Actuarial Cost Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following represent the key actuarial assumptions:

Age Adjustment Factor:	1.91109
Average Retirement Age:	63
Employer Future Premium Contribution:	Remain a level percentage of the total cost over time
Actuarial Cost Method:	Entry Age Normal
Amortization: Method:	Level Percentage of Payroll
Assets Backing OPEB Liability:	None
Plan Asset Return:	None
Bond Yield:	1.65% (1.96% in prior year)
Discount Rate:	1.65% (1.96% in prior year)
Measurement Date:	December 31, 2021 and 2020
Projected Salary Increases:	3.0%
Amortization Period:	20 years, if applicable
Percentage Participation:	2.00%
Healthcare Cost Trend:	Healthcare costs are expected to increase annually 4.3% to 4.9% for medical, 4.3% to 5.9% for pharmacy, 3.0% to 3.5% for dental and 3.0% for vision.
NOL and ADC:	Calculated using the Alternative Measurement Method in accordance with GASB methodology.
Mortality Table:	Pub-2010 Public Retirement Mortality Table with mortality improvement projected for 10 years.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

Turnover Assumption: Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of employee group covered by the Federal Employees Retirement System.

Changes in Net OPEB Liability

Changes in the net pension liability were as follows:

2021	Total OPEB Liability	Total Fiduciary Net Position	Net OPEB Liability
Balance, January 1, 2021	\$ 140,768	-	140,768
Changes for the year:			
Service cost	7,570	-	7,570
Interest on OPEB liability	2,863	-	2,863
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(15,084)	-	(15,084)
Effect of assumption changes or inputs	8,350	-	8,350
Net changes	3,699	-	3,699
Balance, December 31, 2021	<u>\$ 144,467</u>	<u>-</u>	<u>144,467</u>
2020			
Balance, January 1, 2020	\$ 299,950	-	299,950
Changes for the year:			
Service cost	13,772	-	13,772
Interest on OPEB liability	10,227	-	10,227
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(216,695)	-	(216,695)
Effect of assumption changes or inputs	33,514	-	33,514
Net changes	(159,182)	-	(159,182)
Balance, December 31, 2020	<u>\$ 140,768</u>	<u>-</u>	<u>140,768</u>

Sensitivity of the OPEB to Changes in the Discount Rate and Healthcare Trend Rate

The following tables represent the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	December 31, 2021			December 31, 2020		
	Discount Rate	Net OPEB Liability	Changes from Baseline	Discount Rate	Net OPEB Liability	Changes from Baseline
1% decrease	0.65%	\$ 180,366	35,899	0.93%	\$ 175,508	34,740
Current discount rate	1.65%	144,467	-	1.93%	140,768	-
1% increase	2.65%	117,376	(27,091)	2.93%	114,493	(26,275)

The following presents the OPEB liability calculated using the healthcare trend rates 1 percent lower or 1 percent higher than the current rate:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020

	<u>December 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Net OPEB Liability</u>	<u>Changes from Baseline</u>	<u>Net OPEB Liability</u>	<u>Changes from Baseline</u>
1% decrease	\$ 111,209	(33,258)	\$ 109,506	(31,262)
Current discount rate	144,467	-	140,768	-
1% increase	189,832	45,365	183,031	42,263

9. Average Number of Sewer Users

The average number of residential, commercial, and industrial customers for the year ended December 31, 2021, was 37,155; 3,409; and 19, respectively. The average number of residential, commercial, and industrial customers for the year ended December 31, 2020, was 37,013; 3,638; and 19, respectively.

10. Insurance Coverage

The Utility was insured at December 31, 2021 and 2020, for general liability, automobile liability and all risk replacement cost except worker's compensation with the Arkansas Municipal League with claims administered by Alliant Insurance Services Inc. of Little Rock. The Utility was insured with the Municipal League Workers' Compensation Trust for worker's compensation. The policy effective dates are for a calendar year for all aforementioned insurance policies. The Utility was insured at December 31, 2021 and 2020, with RSUI Indemnity Co. for blanket property coverage.

The following schedule lists the coverage and limits:

<u>Type of Insurance</u>	<u>Limits</u>
1. General liability	
a. Property	\$502,500,000 per occurrence
b. Cyber liability	\$25,000,000 subject to \$2,000,000 per member
2. Automobile liability	\$25,000 each occurrence, bodily injury and property damage/\$50,000 bodily injury per accident
3. All risk replacement cost	\$500,000,000
4. Blanket property coverage	
a. Earthquake coverage	\$52,500,000 per occurrence
b. Flood coverage	\$52,500,000 per occurrence

**North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2021 and 2020**

11. Current Sewer Rates

The current sewer rates were established by Ordinance No. 8768 by the City Council of the City of North Little Rock on October 26, 2015. The classes of users include residential, commercial, and significant industrial customers. The rates for each residential customer are computed based on the average monthly usage for the billing months of October, November, December, January, February and March. The rates for each commercial customer are computed based on the actual usage. In the case of new residential customers for whom records are not available for the entire six-month period, the rates are computed on actual water usage until an average monthly usage can be calculated. The minimum monthly charge for the first four hundred cubic feet or less of the average monthly usage is a rate equal to \$18.05. For each one hundred cubic feet, or fraction thereof, the monthly rate for residential, commercial and industrial customers is equal to \$5.64 per one hundred cubic feet charged with a minimum of \$18.05 per four hundred cubic feet for existing users. Existing users are defined as users physically located within the city limits of North Little Rock or when they are physically located within the now existing territorial boundaries of an improvement district that received services from the system on the date of the enactment of ordinance 8768. Any user not deemed to be an existing user shall be deemed to be an outside user, but will have the same monthly rate as an existing user.

Significant industrial customers are defined by the ordinance as any non-residential customer which normally discharges wastewater to the system in quantities of 25,000 gallons per day or greater or whose wastewater contains or has the potential to contain toxic pollutants, restricted pollutants, or non-compatible pollutants. The minimum monthly charge and additional monthly charge as stated above applies. In addition, penalties are assessed for biochemical oxygen demand, total suspended solids, ph, fats, oils and greases, and other limited parameters in excess of maximum limits established by the ordinance.

12. Total Annual Billable Water

The total annual billable water for the year ended December 31, 2021, was 3,905,463 one-hundred cubic feet, comprised of 2,466,452 one-hundred cubic feet annual billable water for residential customers and 1,439,011 one-hundred cubic feet annual billable water for commercial customers. The total annual billable water for the year ended December 31, 2020, was 3,609,800 one-hundred cubic feet, comprised of 2,318,274 one-hundred cubic feet annual billable water for residential customers and 1,291,526 one-hundred cubic feet annual billable water for commercial customers.

North Little Rock Waste Water Utility
Combined Statement of Revenues, Expenses, and Changes in Net Position
Budgetary Comparison Schedule
For the Year Ended December 31, 2021
(See independent auditor's report.)

	Original and Final Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Service charges	\$ 20,422,500	21,856,313	1,433,813
Service charges - industry	1,753,500	1,709,151	(44,349)
Service charges - violations	152,300	260,432	108,132
Service charges - late fees	373,700	352,995	(20,705)
Permits and inspections	50,300	50,450	150
Other operating income	7,700	128,334	120,634
Total Operating Revenues	<u>22,760,000</u>	<u>24,357,675</u>	<u>1,597,675</u>
Operating Expenses			
Cost of sales	12,303,200	9,266,886	(3,036,314)
Operating expenses	7,608,600	7,736,351	127,751
Total Operating Expenses	<u>19,911,800</u>	<u>17,003,237</u>	<u>(2,908,563)</u>
Operating Income	<u>2,848,200</u>	<u>7,354,438</u>	<u>4,506,238</u>
Non-Operating Income			
Interest and other income	55,200	97,965	42,765
Total Non-Operating Income	<u>55,200</u>	<u>97,965</u>	<u>42,765</u>
Non-Operating Expenses			
Interest expense	1,267,500	1,113,935	(153,565)
Total Non-Operating Expenses	<u>1,267,500</u>	<u>1,113,935</u>	<u>(153,565)</u>
Increase in Net Position	1,635,900	6,338,468	4,702,568
Net position - beginning of period	97,202,091	97,202,091	-
Net Position - End of period	<u>\$ 98,837,991</u>	<u>103,540,559</u>	<u>4,702,568</u>

North Little Rock Waste Water Utility
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Seven Years Ended December 31, 2021
(See independent auditor's report.)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total Pension Liability			
Service cost	\$ 359,368	\$ 359,055	\$ 372,460
Interest	1,006,486	972,926	934,150
Benefit changes	153,000	-	-
Differences between expected and actual experience	476,534	(141,901)	(88,707)
Assumption change	454,581	-	-
Benefit payments	(728,145)	(620,051)	(595,829)
Net change in total pension liability	1,721,824	570,029	622,074
Total pension liability - beginning	15,489,098	14,919,069	14,296,995
Total Pension Liability - Ending	<u>17,210,922</u>	<u>15,489,098</u>	<u>14,919,069</u>
Plan Fiduciary Net Position			
Contributions - employee	-	-	-
Contributions - employer	750,000	750,000	1,353,100
Net investment income	2,789,277	(261,577)	798,804
Benefit payments	(728,145)	(620,051)	(595,829)
Administrative expense	-	-	-
Other	(10,804)	3,706	(2,334)
Net change in plan net position	2,800,328	(127,922)	1,553,741
Plan fiduciary net position - beginning	13,037,243	13,165,165	11,611,424
Plan Fiduciary Net Position - Ending	<u>15,837,571</u>	<u>13,037,243</u>	<u>13,165,165</u>
Net pension liability	<u>\$ 1,373,351</u>	<u>\$ 2,451,855</u>	<u>\$ 1,753,904</u>
Plan fiduciary net position as a percentage of total pension liability	92.02%	84.17%	88.24%
Covered employee payroll	3,846,544	3,867,031	3,856,063
Net pension liability as a percentage of covered employee payroll	35.70%	63.40%	45.48%
Annual money-weighted rate of return	21.3%	-2.0%	6.6%

Note: A full 10 year schedule will be completed as information is available. Valuation date is July 1 or 6 months prior to the end of the fiscal year in which contributions are reported.

Note: Key actuarial assumptions and disclosures can be found in Note 7 of the financial statements

2018	2017	2016	2015
364,770	325,043	289,654	273,092
893,838	927,980	871,343	881,729
-	-	-	-
(64,567)	(449,454)	101,449	(786,365)
-	1,092,570	-	-
(566,646)	(549,127)	(536,212)	(510,798)
627,395	1,347,012	726,234	(142,342)
13,669,600	12,322,588	11,596,354	11,738,696
14,296,995	13,669,600	12,322,588	11,596,354
-	-	-	-
702,970	625,000	600,000	642,000
577,978	858,710	416,717	94,153
(566,646)	(549,127)	(536,212)	(510,798)
-	-	-	-
13,615	14,211	(2,632)	(558)
727,917	948,794	477,873	224,797
10,883,507	9,934,713	9,456,840	9,232,043
11,611,424	10,883,507	9,934,713	9,456,840
2,685,571	2,786,093	2,387,875	2,139,514
81.22%	79.62%	80.62%	81.55%
3,675,206	3,621,125	3,288,939	3,125,501
73.07%	76.94%	72.60%	68.45%
5.3%	8.6%	4.4%	1.0%

North Little Rock Waste Water Utility
Schedule of Contributions
For the Seven Years Ended December 31, 2021
(See independent auditor's report.)

Fiscal Year ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as % of Payroll
2015	\$ 577,750	642,000	(64,250)	3,125,501	20.54%
2016	551,811	600,000	(48,189)	3,288,939	18.24%
2017	616,644	625,000	(8,356)	3,621,125	17.26%
2018	702,970	702,970	-	3,675,206	19.13%
2019	698,563	1,353,100	(654,537)	3,856,063	35.09%
2020	575,971	750,000	(174,029)	3,867,031	19.39%
2021	657,970	750,000	(92,030)	3,846,544	19.50%

Note: A full 10 year schedule will be completed as information is available. Valuation date is July 1 or 6 months prior to the end of the fiscal year in which contributions are reported.

Key assumptions for actuarially determined contribution:

Cost method:	Entry Age Normal
Amortization method:	Level Percent of Salary
Remaining amortization:	10 years
Asset valuation:	Market Value
Investment rate of return:	6.5% (7.5% for 2016 and prior)
Mortality:	RP 2000 Combined Healthy Lives

North Little Rock Waste Water Utility
Schedule of Changes in the Other Post-Retirement Benefit Liability and Related Ratios
For the Five Years Ended December 31, 2021
(See independent auditor's report.)

	<u>2021</u>	<u>2020</u>
Total OPEB Liability		
Service cost	\$ 7,570	\$ 13,772
Interest	2,863	10,227
Benefit changes	-	-
Differences between expected and actual experience	-	-
Effect of economic/demographic gains or losses	(15,084)	(216,695)
Assumption change	8,350	33,514
Benefit payments	-	-
Net change in total pension liability	3,699	(159,182)
Total OPEB liability - beginning	140,768	299,950
Total OPEB Liability - Ending	<u>144,467</u>	<u>140,768</u>
 Plan Fiduciary Net Position		
Contributions - employee	-	-
Contributions - employer	-	-
Net investment income	-	-
Benefit payments	-	-
Administrative expense	-	-
Other	-	-
Net change in plan net position	-	-
Plan fiduciary net position - beginning	-	-
Plan Fiduciary Net Position - Ending	<u>-</u>	<u>-</u>
 Net OPEB liability	<u><u>\$ 144,467</u></u>	<u><u>\$ 140,768</u></u>
 Plan fiduciary net position as a percentage of total pension liability	0.00%	0.00%
 Covered employee payroll	4,800,377	4,490,198
 Net OPEB liability as a percentage of covered employee payroll	3.01%	3.14%

Note: A full 10 year schedule will be completed as information is available.

Note: Key actuarial assumptions and disclosures can be found in Note 8 of the financial statements

<u>2019</u>	<u>2018</u>	<u>2017</u>
\$ 15,645	\$ 15,645	14,453
10,968	9,047	5,951
-	-	-
-	-	-
(33,223)	31,724	-
20,880	58,671	-
-	-	-
14,270	115,087	20,404
285,680	170,593	150,189
<u>299,950</u>	<u>285,680</u>	<u>170,593</u>

-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 299,950</u>	<u>\$ 285,680</u>	<u>170,593</u>

0.00%	0.00%	0.00%
4,367,587	4,051,934	4,312,328
6.87%	7.05%	3.96%

North Little Rock Waste Water Utility
Schedule of Operating Expenses
For the Years Ended December 31, 2021 and 2020
(See independent auditor's report on other supplementary information.)

	<u>2021</u>	<u>2020</u>
Administrative and General		
Advertising	\$ 1,350	3,657
Audit and other professional fees	23,000	37,500
Depreciation	549,958	536,788
Employee physicals expense	1,021	1,748
Equipment repair and maintenance	19,103	9,909
Executive salary	149,924	167,517
Gas - transportation equipment	884	372
Holiday pay	22,589	22,095
Insurance - general	16,316	14,164
Insurance - group	41,353	56,407
Insurance - transportation equipment	398	624
Janitorial	2,635	3,908
Labor expense - office	293,678	324,664
Legal	34,371	43,963
Longevity pay	63,200	65,100
Maintenance and repairs - transportation equipment	145	1,556
Master plan study	-	39,891
Miscellaneous	432,205	209,857
Miscellaneous leave pay	7,603	-
OPEB expense	3,699	(159,182)
Payroll taxes	42,024	42,803
Postage expense	1,586	1,671
Rent/lease expense	1,986	2,162
Sick leave expense	49,986	23,800
Subscription and dues	11,959	6,868
Supplies expense	24,487	34,605
Telephone	7,848	12,979
Training	10,286	2,245
Travel, meetings, and conventions	5,106	5,796
Uniform	-	149
Utilities	10,918	10,180
Vacation	54,708	50,021
Workers' compensation insurance	3,647	6,153
Total Administrative and General	<u>1,887,973</u>	<u>1,579,970</u>

	2021	2020
Undistributed Expense		
Depreciation - nonfunded	4,354,345	4,134,208
Employee pension	606,529	706,972
Pension plan administration	11,175	11,020
Total Undistributed Expense	4,972,049	4,852,200
Utilities Accounting		
Bad debt	330,865	398,231
Billing and collecting - North Little Rock district	502,628	485,888
Billing and collecting - other districts	42,836	34,828
Gas - transportation equipment	-	575
Holiday pay	-	979
Insurance - transportation equipment	-	176
Labor expense	-	23,132
Sick pay	-	535
Supplies expense	-	351
Telephone expense	-	2,664
Vacation pay	-	1,024
Total Utilities Accounting	876,329	948,383
Total Operating Expenses	\$ 7,736,351	7,380,553

**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***

North Little Rock Waste Water Treatment Committee
North Little Rock Waste Water 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 North Little Rock Waste Water Utility as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise North Little Rock Waste Water Utility's basic financial statements, and have issued our report thereon dated March 31, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Little Rock Waste Water 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 North Little Rock Waste Water Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of North Little Rock Waste Water 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.

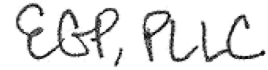
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Little Rock Waste Water 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.



March 31, 2022

Certified Public Accountants & Consultants
North Little Rock, Arkansas