

JXN WATER, INC.
Jackson, Mississippi

Report on Audit of Financial Statements

For the Years Ended December 31, 2024 and 2023

JXN WATER, INC.
Jackson, Mississippi

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
JXN Water, Inc.
Jackson, Mississippi

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of JXN Water, Inc., which comprise the balance sheet as of December 31, 2024 and 2023, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of JXN Water, Inc. as of December 31, 2024 and 2023, the results of its operations 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 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 JXN Water, Inc. 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

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 JXN Water, Inc.'s ability to continue as a going concern within 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of JXN Water, Inc.'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 JXN Water, Inc.'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 August 13, 2025 on our consideration of JXN Water, Inc.'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 JXN Water, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering JXN Water, Inc.'s internal control over financial reporting and compliance.

Memphis, Tennessee
August 13, 2025

JXN WATER, INC.
Balance Sheets

ASSETS

	December 31,	
	2024	2023
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,238,585	\$ 1,516,409
Restricted cash	9,334,090	5,317,737
Accounts receivable water/waste water (<i>net</i>)	8,638,942	5,748,653
Accounts receivable other (<i>net</i>)	637,353	887,748
Prepaid expenses and other current assets	403,117	0
Total Current Assets	23,252,087	13,470,547
NON-CURRENT ASSETS:		
Water deposits receivable	0	5,549,011
Sanitation receivable	35,377,896	29,343,522
Fixed Assets (<i>net of accumulated depreciation of \$23,689</i>)	2,070,275	1,558,354
Total Non-Current Assets	37,448,171	36,450,887
TOTAL ASSETS	\$ 60,700,258	\$ 49,921,434

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 17,685,203	\$ 11,982,450
Accrued payroll liabilities	0	312,057
Bonds payable-current portion	8,725,000	10,440,000
Accrued interest expense	2,316,229	1,615,691
Total Current Liabilities	28,726,432	24,350,198
NON-CURRENT LIABILITIES:		
Bonds payable	139,778,500	148,506,500
ARPA (loan payable)	0	15,149,500
Sanitation payable	32,993,343	29,343,522
Water deposits	6,115,394	5,607,258
Other long-term liabilities	0	200,470
Total Non-Current Liabilities	178,887,237	198,807,250
Total Liabilities	207,613,669	223,157,448
MEMBERS' EQUITY	(146,913,411)	(173,236,014)
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 60,700,258	\$ 49,921,434

See accompanying notes to the financial statements

JXN WATER, INC.
Statements of Income
For the Years Ended December 31, 2024 and 2023

	2024	2023
REVENUE:		
Water/Sewer	\$ 100,462,221	\$ 56,684,022
Grants	164,107,029	75,507,265
Other income	496,274	6,952,038
Interest	<u>264,512</u>	<u>478,840</u>
Total Revenue	<u>265,330,036</u>	<u>139,622,165</u>
EXPENSES:		
Drinking water expense	2,991,113	0
Customer Service	17,967,599	0
Operation and Maintenance	77,332,057	67,066,673
Contractual support	3,971,441	12,970,160
Waste water	47,381,477	12,413,584
Communications/PR	1,962,323	1,065,140
1442 B Projects	93,297,324	38,668,645
SRF tax intercept	3,417,855	0
Interest expense	<u>8,737,182</u>	<u>4,130,420</u>
Total Expenses	<u>257,058,371</u>	<u>136,314,622</u>
NET INCOME	<u>\$ 8,271,665</u>	<u>\$ 3,307,543</u>

See accompanying notes to the financial statements

JXN WATER, INC.
Statements of Changes in Members' Equity
For the Year Ended December 31, 2024 and 2023

	Member Equity	Total Equity
BALANCES OF JANUARY 1, 2023	\$ (176,543,558)	\$ (176,543,558)
Net income (loss)	3,307,543	3,307,543
Distributions		
BALANCES AT DECEMBER 31, 2023	\$ (173,236,015)	\$ (173,236,015)
Net income	8,271,665	8,271,665
Prior period adjustments	18,050,939	18,050,939
BALANCES AT DECEMBER 31, 2024	\$ (146,913,411)	\$ (146,913,411)

See accompanying notes to the financial statements

JXN WATER, INC.
Statements of Cash Flows
December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 98,318,601	\$ 26,503,161
Cash payments to suppliers	(147,000,301)	(48,825,816)
Cash payments to employees and professional contracts for services	(3,537,093)	(1,417,666)
Other operating payments	(915,644)	(3,820,905)
Payments to other funds	(2,384,553)	-
Receipts from other funds	-	-
Net Cash Provided By (Used In) Operating Activities	(55,518,990)	(27,561,226)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	98,783,992	-
Water deposits	6,057,145	6,285,732
Net Cash Provided By (Used In) Non-Capital Financing Activities	104,841,137	6,285,732
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital debt	(8,130,271)	(10,982,012)
Net purchase of capital assets	(554,041)	(1,582,043)
Interest paid on capital debt	(10,349,373)	(2,510,739)
Grants	69,483,475	112,640,165
1442B projects	(93,297,920)	(69,934,570)
Net Cash Provided By (Used In) Capital and Related Financing Activities	(42,848,130)	27,630,801
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends	264,512	478,839
Net Cash Provided By (Used In) Investing Activities	264,512	478,839
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,738,529	6,834,146
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,834,146	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,572,675	\$ 6,834,146
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (56,154,324)	\$ (35,746,460)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	42,120	23,689
(Increase) Decrease Changes in Assets and Deferred Outflows of Resources:		
Receivables	(2,890,289)	(5,748,653)
Sanitation payable/receivables	(2,384,553)	-
Accounts receivables	-	-
Accounts payable	-	-
Due from	-	-
Increase (Decrease) Changes in Liabilities and Deferred Inflows of Resources:		
Accrued liabilities	(312,057)	312,057
Accounts payable	7,792,304	11,982,450
Accrued interest	(1,612,191)	1,615,691
Total Adjustments	635,334	8,185,234
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (55,518,990)	\$ (27,561,226)

See accompanying notes to the financial statements

JXN WATER, INC.
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JXN WATER, INC.
Notes to the Financial Statements
For the Years Ended December 31, 2024 and 2023

NOTE 1 - ORGANIZATION:

JXN Water, Inc. (JXN Water) is a Mississippi water utility company run by interim third-party manager, Ted Henifin who was authorized by a federal court order on November 29, 2022 by United States District Judge Henry Wingate to reestablish water infrastructure, operations and put the JXN Water system on a sustainable path forward. As a result, JXN Water was created to accomplish the goals of the stipulated orders.

JXN Water continues to make significant progress in restoring the water system in Jackson. The water system is stable and providing water that meets Safe Drinking Water Act standards to all customers all the time, except for brief periods of local interruptions during ongoing system repairs. Elevated disinfection by-products have been an issue as the system leakage is reduced and water is aging in the system for the first time in years. JXN Water is taking action to bring these numbers down. Water production is down a remarkable 26 percent since March 2023 and system pressures have dramatically increased, and stabilized, especially in South Jackson. Pressures and flows from the plants have been reduced to increase turnover in the elevated tanks without impacting pressure to customers. The system is operating very well JXN Water continues to make significant progress in restoring the water system in Jackson. The water system is stable and providing water that meets Safe Drinking Water Act standards to all customers all the time, except for brief periods of local interruptions during ongoing system repairs. Elevated disinfection by-products have been an issue as the system leakage is reduced and water is aging in the system for the first time in years. JXN Water is taking action to bring these numbers down. Water production is down a remarkable 26 percent since March 2023 and system pressures have dramatically increased, and stabilized, especially in South Jackson. Pressures and flows from the plants have been reduced to increase turnover in the elevated tanks without impacting pressure to customers. The system is operating very well

JXN WATER, INC. was organized as an S Corporation under the laws of the State of Mississippi, on December 7th 2022.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of the Presentation of Financial Statements Topic ASC 205-10 of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. The Topic establishes standards for external financial reporting for business entities.

Cash and Cash Equivalents

JXN Water considers cash on hand, in checking, savings, certificates of deposits, and other similar accounts to be cash. All highly liquid debt instruments with a maturity of three months or less when purchased are considered to be cash equivalents. Cash accounts are maintained at a large financial institution and, at times, may exceed federally insured limits.

Accounts Receivables Water/Waste Water

Accounts receivables represent amounts billed for water/waste water services provided that have not yet been collected. Receivables are considered past due 20 days after the invoice due date. JXN Water began managing the water/waste water operations of the City of Jackson, Mississippi on October 1, 2023. Due to inaccurate billings from the meter system in the previous years, JXN Water made the decision to remove all customer debt incurred prior to 12/1/2022 from customers bills and placed these amounts into a suspense account, upon placing these balances into a suspense account, JXN Water then placed a full valuation allowance on this amount.

For the years ended December 31, 2024 and 2023, JXN Water had accounts receivable related to water/waste water of \$168,206,761 and \$135,635,902, respectively with a related allowance for doubtful accounts of \$(159,567,819) and \$(129,887,249).

Accounts Receivables-Miscellaneous

Accounts receivables-miscellaneous represents amounts billed to the City of Jackson for services other than the management of the water/waste system. For the years ended December 31, 2024 and 2023, JXN Water had a balance of \$8,775,557 and \$8,923,786, respectively in miscellaneous accounts receivable with a related allowance for doubtful accounts of \$(8,036,037) and \$(8,036,037) respectively.

Sanitation Receivable/Payable

The citizens of Jackson, Mississippi are charged for sanitation services monthly on their water bills. JXN Water records amounts related to sanitation on the customers bills in a separate receivable account with an offsetting entry to a payable account since these amounts will be remitted to the City of Jackson, Mississippi. For the years ended December 31, 2024 and 2023, JXN Water had a balance of \$35,394,433 and \$29,343,522, respectively in accounts receivable sanitation with a corresponding liability in the sanitation payable account of \$(32,993,343) and \$(29,343,522).

Accounts Receivable/Payable Water Deposits

Accounts receivable water deposits related to customer deposits that were remitted to the City of Jackson, Mississippi, before JXN Water, October 1, 2023, but not yet remitted to JXN Water as of December 31, 2024. JXN Water also has a corresponding liability in the same amount since these funds would be given back to customers upon the termination of service.

Compensated Absences

JXN Water has not made an accrual for compensated absences because the amount cannot be reasonably estimated.

Property and Equipment

Property and equipment purchased with a cost in excess of \$5,000 are capitalized and reported at cost at date of acquisition less accumulated depreciation.

Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis, ranging from 3 to 10 years for equipment and 10 to 50 years for buildings and land improvements.

Revenue Recognition

JXN Water's major sources of revenue include service fees and fees billed to customers for water and sewer services. JXN Water records revenue billed to its customers after the meters are read each month. In addition, revenues also include excise taxes and public utility taxes which are remitted to state and local taxing authorities.

For non-water revenue, revenue is recognized at a single point in time when ownership, risk and rewards transfer. Any revenue recognized over time, such as service income, consists of performance obligations that are typically one year or less. There are no shipping and handling fees charged to customers incurred by JXN Water. The majority of JXN Water's contracts do not contain variable consideration and contract modifications are typically minimal. Incidental items that are immaterial in the context of the contract are recognized as expense.

JXN Water also receives a significant amount of federal grant funds related to specific capital projects. These grants are reimbursable grants, meaning that JXN Water must first incur the expenditure then submit a reimbursement request to the granting agency. Revenue related to these grants are recognized at the time the reimbursement request is made to the grantor.

Economic conditions such as unemployment, poverty, and other personal issues can effect the customers ability to pay for their water services, which in turn cause uncertainties about the revenue and cash flow of JXN Water.

Income Taxes

Under U.S. federal income tax law, JXN Water is a pass-through entity for federal income tax purposes. Therefore, no provision has been made in the accompanying financial statements for income taxes due by the Company. Each member is individually responsible for reporting its share of JXN Water's income or loss.

Subchapter S corporations that conduct business in the State of Mississippi are generally subject to Mississippi franchise and excise taxes. Certain taxable income or loss of the Company is considered self-employment income for state income tax purposes and accordingly is included in the respective state income tax returns of the members. As a result, there was no provision for Mississippi state income taxes in 2024.

ASC 740, *Income Taxes*, requires management to determine whether a tax position is more likely than not to be sustained upon examination by the applicable tax authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to the amount of tax benefit or expense to be recognized. The Company does not have any uncertain tax positions that would require accrual under ASC 740. No interest or penalty related to uncertain taxes has been recognized in the accompanying statements of income. The Company does not expect a significant change in uncertain tax positions during the twelve months subsequent to December 31, 2024.

In the normal course of business, the Company may be audited by any of the taxing authorities with which it files a tax return. As of December 31, 2024, the Company is not currently undergoing any tax examinations nor has it agreed to extend the statute of limitation beyond the prescribed expiration date. With few exceptions, the Company is no longer subject to examinations by U.S. federal, state, and local income tax authorities for years before 2018.

JXN Water exists separately from and is not a part of the City of Jackson. Income received by JXN Water from its operation of the public drinking water system, the sewer system, and the WSBA is used entirely to operate and maintain the systems, and therefore no private interest can, has, or will receive distributions from JXN Water's revenue, now or upon JXN Water's dissolution. All income received by JXN Water, now and forever, accrues solely to the benefit of the City of Jackson as a result of functions performed by JXN Water that otherwise would be performed by the City of Jackson.

IRC § 115 states that gross income does not include income derived from any public utility or the exercise of any essential governmental function and accruing to a State or any political subdivision. Based on this, JXN Water does not consider income derived from the operation of the City of Jackson's water and sewer operations to be taxable for the purpose of federal and state income taxes.

Selling, General and Administrative

Selling, general and administrative expenses include selling and marketing expenses not directly related to mutual funds, and include costs such as facilities, insurance, legal and accounting fees, travel and entertainment, depreciation and amortization, and other administrative costs.

Use of Estimates

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

Subsequent Events

Management has evaluated events and transactions that have occurred between December 31, 2024 and August 13, 2025, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - BONDS PAYABLE:

Per the Stipulated Order, JXN Water assumed responsibility for all existing debt related to the sewer and water systems as of the date of the order.

As of December 31, 2024, JXN Water had the following outstanding bonds.

Terms and Principal Balances

<u>Description</u>	<u>Original Principal</u>	<u>Origination Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Series 2011A	\$ 46,720,000	08/10/2011	09/01/2034	5.00%
Series 2011 B Taxable	\$ 2,565,000	08/10/2011	09/01/2034	5.00%
Series 2012A	\$ 36,280,000	09/01/2012	09/01/2034	5.00%
Series 2012A	\$ 26,765,000	09/01/2012	09/01/2034	5.00%
Series 2013	\$ 89,990,000	12/01/2013	12/01/2040	5.00%

Future minimum payments on bonds payable at December 31, 2024 consist of:

		<u>Principal</u>	<u>Interest</u>
1	12/31/2025	\$ 8,725,000	\$ 8,338,694
2	12/31/2026	\$ 9,210,000	\$ 10,563,134
3	12/31/2027	\$ 9,730,000	\$ 7,353,746
4	12/31/2028	\$ 7,435,000	\$ 6,814,926
5	12/31/2029	\$ 7,857,000	\$ 6,397,248
	Thereafter	\$ 105,535,000	\$ 34,915,380

As of December 31, 2023, JXN Water had the following outstanding bonds.

Terms and Principal Balances

Description	Original Principal	Origination Date	Maturity Date	Interest Rate
Series 2011A	\$ 46,720,000	08/10/2011	09/01/2034	5.00%
Series 2011 B Taxable	\$ 2,565,000	08/10/2011	09/01/2034	5.00%
Series 2012A	\$ 36,280,000	09/01/2012	09/01/2034	5.00%
Series 2012A	\$ 26,765,000	09/01/2012	09/01/2034	5.00%
Series 2013	\$ 89,990,000	12/01/2013	12/01/2040	5.00%
Series 2016	\$ 17,135,000	08/24/2016	09/01/2024	5.00%

Future minimum payments on bonds payable at December 31, 2023 consist of:

		Principal	Interest
1	12/31/2024	\$ 10,440,000	\$ 8,860,833
2	12/31/2025	\$ 8,725,000	\$ 8,338,693
3	12/31/2026	\$ 9,210,000	\$ 10,563,133
4	12/31/2027	\$ 9,730,000	\$ 7,353,745
5	12/31/2028	\$ 7,435,000	\$ 6,814,925
	Thereafter	\$ 113,410,000	\$ 40,582,619

NOTE 4 - FIXED ASSETS:

As of December 31, 2024, fixed assets consist of:

	Beginning Balance	Additions	Disposals	Ending Balance
Construction in progress	\$ 275,000	\$ 424,390	\$ 0	\$ 699,390
Total Non-depreciable	275,000	424,390	0	699,390
Building	1,307,043	0	0	1,307,043
Equipment	0	41,642	0	41,642
Land improvements	0	88,009	0	88,009
Accumulated depreciation	(23,689)	(42,120)	0	(65,809)
Net Depreciable Fixed Assets	1,283,354	87,531	0	1,370,885
Total Fixed Assets	\$ 1,558,354	\$ 511,921	\$ 0	\$ 2,070,275

Depreciation expense for the year ended December 31, 2024 was \$42,194.

As of December 31, 2023, fixed assets consist of:

	Beginning Balance	Additions	Disposals	Ending Balance
Construction in progress	\$ 0	\$ 275,000	\$ 0	\$ 275,000
Total Non-depreciable	<u>0</u>	<u>275,000</u>	<u>0</u>	<u>275,000</u>
Building	0	1,307,043	0	1,307,043
Accumulated depreciation	<u>0</u>	<u>(23,689)</u>	<u>0</u>	<u>(23,689)</u>
Net Depreciable Fixed Assets	<u>0</u>	<u>1,283,354</u>	<u>0</u>	<u>1,283,354</u>
Total Fixed Assets	<u>\$ 0</u>	<u>\$ 1,558,354</u>	<u>\$ 0</u>	<u>\$ 1,558,354</u>

Depreciation expense for the year ended December 31, 2023 was \$42,194.

NOTE 5 - MEMBERS' EQUITY:

JXN Water is organized as an subchapter S Corporation under the laws of the State of Mississippi. The organization has one class of stock and all issued and outstanding stock is owned by its sole member. Per the Interim Stipulated Order, JXN Water exists solely for the operation and maintenance of the City of Jackson, Mississippi public drinking water and sewer system. All income derived by JXN Water from its operation of the public drinking water system and the WSBA is used entirely to operate and maintain the systems. Therefore, no distributions can be made from equity to its shareholder and must accrue for the continued operations of the City of Jackson, Mississippi water and sewer system.

NOTE 6 - COMMITMENTS AND CONTINGENCIES:

JXN Water receives a significant amount of grants from the federal government for specific projects. The grant funds are subject to review and/or audit by the Environmental Protection Agency (EPA). If during the course of an audit by the EPA, amounts are found to be unallowable expense, JXN Water would be liable for the repayment of these funds.

NOTE 7 - SUPPLEMENTAL CASH FLOW INFORMATION:

For the years ended December 31, 2024 and 2023, JXN Water paid cash for interest expense related to bonds in the amount of \$8,036,644 and \$2,514,729 and accrued interest of \$1,615,691 and \$1,615,691, respectively.

SUPPLEMENTAL INFORMATION

JXN WATER, INC.

Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2024

Federal Grantor/ Pass-through Grantor/ Federal Awards	Program/Cluster Name	ALN Number	Contract Number	Expenditures
Response to Emergency Situations Affecting Public Water Systems (SDWA 1442b-084060101)	Response to Emergency Situations Affecting Public Water Systems (SDWA 1442b)	66.489	SDWA 1442b-084060101	\$ 106,259,838
Total Response to Emergency Situations Affecting Public Water Systems (SDWA 1442b)				<u>106,259,838</u>
Capitalization Grants for Drinking Water State Revolving Funds	Drinking Water Systems Improvement Revolving Loan Fund	66.468	SWJXN-L250008-07-0	13,400,000
Capitalization Grants for Drinking Water State Revolving Funds	Purchase of a portion of the city of Jackson's Obligation Bond (S2013	66.468	DWJXN-L250008-02-0	34,940,070
Capitalization Grants for Drinking Water State Revolving Funds	Drinking Water Systems improvement Revolving Loan Fund	66.468	DWJXN-L250008-01-0	32,200,000
Capitalization Grants for Drinking Water State Revolving Funds	Emergency Small Pipe Diameter Replacement	66.468	DWJXN-L250008-03-0	5,182,149
Total ALN # 66.468				<u>85,722,219</u>
TOTAL FEDERAL AWARDS				\$ <u>191,982,057</u>

JXN WATER, INC.
Notes to Schedule of Expenditures of Federal Awards
December 31, 2024

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs Principles and Audit Requirements for Federal Awards*. (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of JXN Water, it is not intended to and does not present the financial position, changes in net assets, or cash flows of JXN Water.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The Organization has not elected to use the 10% de minimis indirect cost rate.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
JXN Water, Inc.
Jackson, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of JXN Water, Inc., which comprise the balance sheet as of December 31, 2024, and the related statements of income, changes in member's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered JXN Water, Inc.’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of JXN Water, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of JXN Water, Inc.’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 JXN Water, Inc.'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 organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Memphis, Tennessee
August 13, 2025

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
JXN Water, Inc.
Jackson, Mississippi

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited JXN Water, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of JXN Water, Inc.'s major federal programs for the year ended December 31, 2024. JXN Water, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, JXN Water, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of JXN Water, Inc. and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of JXN Water, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to JXN Water, Inc.'s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on JXN Water, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about JXN Water, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 JXN Water, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of JXN Water, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of JXN Water, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Memphis, Tennessee
August 13, 2025

JXN WATER, INC.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2024

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditor's report issued on the financial statements. | Unmodified |
| 2. Material noncompliance relating to the financial statements. | No |
| 3. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | |
|---|------------|
| 4. Type of auditor's report issued on compliance for major federal programs. | Unmodified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 6. Any audit findings reported as required by Section __.510(a) of the Uniform Guidance? | Yes |
| 7. Federal programs identified as major programs: | |
| a. ALN 66.489 Response to Emergency Situations Affecting Public Water Systems (SDWA 1442b-084060101). | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | No |

II. FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

JXN WATER, INC.
Summary Schedule of Prior Audit Findings
Year Ended

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2023-001	Management's Responsibility For Internal Control	Corrected