

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

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

DECEMBER 31, 2020 and 2019

**JACKSONVILLE WASTEWATER UTILITY
JACKSONVILLE, ARKANSAS
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
DECEMBER 31, 2020 AND 2019**

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McAlister & Associates, P. A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Jacksonville Wastewater Utility
Jacksonville, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Jacksonville Wastewater Utility (the Utility), a component unit of the City of Jacksonville, Arkansas, which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jacksonville Wastewater Utility as of December 31, 2020 and 2019, 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.

Other Matters

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

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Utility's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2021 on our consideration of Jacksonville Wastewater Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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 the Utility's internal control over financial reporting and compliance.

McAlister & Associates, P.A.

Certified Public Accountants
Jacksonville, Arkansas
April 30, 2021

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 and 2019

As management of Jacksonville Wastewater Utility (“JWU” or the “Utility”), we offer this discussion and analysis of the financial activities of JWU for the fiscal year ended December 31, 2020. This overview is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the system’s financial activity; c) identify changes in the system’s financial positions (its ability to address the next subsequent year challenges); d) identify any material deviations from the financial plan; and e) identify individual fund issues or concerns.

JACKSONVILLE WASTEWATER UTILITY SYSTEM

JWU is regulated by the Arkansas Department of Environmental Quality (ADEQ). This agency issues a permit to JWU for discharge of treated wastewater. The J. Albert Johnson Regional Wastewater Treatment Plant is located on Cloverdale Road. The Jacksonville municipal sewer system includes approximately 191 miles of gravity and force main sewer lines from 6-inch to 42-inch in size with over 3,800 manholes. The earliest construction in the system dates back about 60 years. The system also includes 14 pump stations ranging in capacity from 90 to 3,500 gallons per minute (gpm). JWU also treats wastewater from the Little Rock Air Force Base, which includes approximately 43.58 miles of gravity lines and about 860 manholes. Treatment and discharge operations at the Johnson Plant are authorized by federal and state regulatory agencies through NPDES Permit No. AR0041335.

JWU has completed twenty-five (25) consecutive years without an NPDES permit violation.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 and 2019

FINANCIAL ANALYSIS AND RESULTS OF OPERATIONS

A condensed summary of JWU's net position as of December 31, 2020, 2019, and 2018 is provided below:

TABLE 1
SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION
DECEMBER 31, 2020, 2019, AND 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets and Deferred Outflows of Resources:			
Total current assets	\$ 10,020,868	\$ 9,718,342	\$ 9,106,217
Total restricted noncurrent assets	529,997	576,234	576,813
Net capital assets	28,990,831	30,247,634	31,550,672
Other assets			
Deferred Outflows of Resources	<u>555,091</u>	<u>353,424</u>	<u>432,124</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 40,096,787</u>	<u>\$ 40,895,634</u>	<u>\$ 41,665,826</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Total current liabilities	\$ 336,902	\$ 538,734	\$ 634,876
Total noncurrent liabilities	<u>16,788,530</u>	<u>16,459,258</u>	<u>16,671,018</u>
Total Liabilities	<u>17,125,432</u>	<u>16,997,992</u>	<u>17,305,894</u>
Deferred Inflows of Resources	<u>123,814</u>	<u>136,075</u>	<u>246,571</u>
Net Position:			
Invested in capital assets	14,476,596	15,594,243	16,418,914
Restricted	598,411	700,450	689,332
Unrestricted	<u>7,772,534</u>	<u>7,466,874</u>	<u>7,005,115</u>
Total Net Position	<u>22,847,541</u>	<u>23,761,567</u>	<u>24,113,361</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,096,787</u>	<u>\$ 40,895,634</u>	<u>\$ 41,665,826</u>

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 and 2019

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

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

In August 2020 JWU issued \$14,620,000 in Wastewater Refunding Revenue Bonds for the purpose of refunding the Series 2016B Bonds. The refunding will provide a \$1,793,000 reduction in debt service payments over the next 20 years. The Series 2016A bonds were defeased at closing from funds available with the trustee. As a result, the Series 2020 bonds are the only bonds outstanding as of 12/31/2020.

Total assets exceeded liabilities at year-end by \$22,847,541 (net position). Of this amount, \$7,772,534 (unrestricted net assets) may be used to meet the system's ongoing obligations to customers and creditors.

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

Total assets decreased by \$798,847 from 2019. Total assets amounted to \$40,096,787 consisting of capital assets in the amount of \$28,990,831 and other assets in the amount of \$10,550,865. Cash (both restricted and unrestricted) in the amount of \$9,699,880 is included in the other asset amount.

Total liabilities amounted to \$17,125,432, consisting of long-term liabilities in the amount of \$16,788,530 and other liabilities in the amount of \$336,902. The Utility's total liabilities include revenue bonds payable (net of unamortized discount) in the amount of \$14,488,420, closure/post-closure liability of \$580,676, and accrued pension liability of \$1,854,434. JWU's total liabilities increased \$127,440 from 2019.

JACKSONVILLE WASTEWATER UTILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 and 2019

A condensed summary of JWU's changes in net position as of December 31, 2020, 2019 and 2018 is provided below:

TABLE 2
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:			
Total operating revenues	\$ 4,913,784	\$ 4,996,761	\$ 4,765,790
Total other revenues	185,640	212,597	128,714
Total Revenues	<u>5,099,424</u>	<u>5,209,358</u>	<u>4,894,504</u>
Expenses:			
Depreciation	2,085,759	2,049,167	2,072,242
Other operating expenses	3,070,707	3,095,842	3,009,554
Bond issue cost	86,521	-	-
Gain (loss) on disposal of capital assets	-	-	(1,129)
Interest expense	523,365	537,710	549,265
Total Expenses	<u>5,766,352</u>	<u>5,682,719</u>	<u>5,632,190</u>
Change in net position before contributions	(666,928)	(473,361)	(737,686)
Capital contributions	<u>200,851</u>	<u>121,566</u>	<u>-</u>
Change in net position	(466,077)	(351,795)	(737,686)
Net Position, Beginning of Year	23,313,618	24,113,361	24,851,047
Restatement – Prior Period Adjustment		(447,949)	
Beginning net position	<u>23,313,618</u>	<u>23,665,412</u>	<u>24,851,047</u>
Ending net position	<u>\$ 22,847,541</u>	<u>\$ 23,313,618</u>	<u>\$ 24,113,361</u>

Total operating revenues amounted to \$4,913,784 during 2020 which represents 1.67% decrease over the previous year. Total operating expenses including provisions for depreciation and closure and post-closure care costs amounted to \$5,156,466 a decrease of 0.22%. The operating loss for 2020 was \$242,682, an increase of 63.70% over the operating loss for 2019.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 and 2019

JWU experienced an increase in total cash in the amount of \$739,566 during 2020, primarily attributable to the decrease in interest on Revenue Refunding Bonds and the refunding of the Series 2016B Revenue Refunding Bonds.

JWU's net cash provided by operating activities was \$2,027,644 in 2020, an increase of \$99,106 from 2019. Net cash used in capital financing activities was \$1,473,717 in 2020, a decrease of \$157,541 from 2019.

BUDGET ANALYSIS AND VARIANCES

JWU budgeted total operating revenues of \$4,929,964 as compared to actual results of \$5,099,424. Total operating expenses were budgeted at \$5,893,697 including budgeted depreciation of \$2,100,000 and closure/post closure of \$40,000. Actual operating expenses amounted to \$5,766,352 which resulted in a \$296,806 variance under budgeted verses actual.

ECONOMIC FACTORS

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

The average customer base for the Utility is currently 9,600. Water consumption has decreased over the past several years, which negatively affects wastewater revenues. This decrease in water usage can best be explained by the current trend to conserve water, and the installation of newer, water-saving plumbing fixtures, along with the extremely wet weather conditions that have occurred in Arkansas in recent years.

Year 2010	678,075 million gallons, down 1.6% from previous year
Year 2011	672,819 million gallons, down 0.78% from previous year
Year 2012	607,379 million gallons, down 10.77% from previous year
Year 2013	563,761 million gallons, down 7.7% from previous year
Year 2014	561,897 million gallons, down 0.33% from previous year
Year 2015	583,184 million gallons, up 3.65% from previous year
Year 2016	552,826 million gallons, down 5% from previous year
Year 2017	546,742 million gallons, down 1.1% from previous year
Year 2018	545,599 million gallons, down 0.21% from previous year
Year 2019	558,346 million gallons, up 2.34% from previous year
Year 2020	551,491 million gallons, down 1.23% from previous year

PROPOSED PLANS FOR THE FUTURE

On-going rehabilitation of the aging system is being budgeted annually as funds allow. Preliminary design plans are in progress for treatment plant improvements to be completed in 2022-2023.

REQUESTS FOR INFORMATION

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and cash equivalents	\$ 9,101,469	\$ 8,259,864
Accounts receivable	552,301	1,041,770
Revenues earned and unbilled	193,901	187,124
Inventories of materials and supplies, at cost	92,145	93,688
Prepaid items	12,638	11,680
Restricted Current Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	68,414	124,216
Total Current Assets	<u>10,020,868</u>	<u>9,718,342</u>
Noncurrent Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	529,997	576,234
Capital assets (net of accumulated depreciation)	<u>28,990,831</u>	<u>30,247,634</u>
Total Noncurrent Assets	<u>29,520,828</u>	<u>30,823,868</u>
Total Assets	39,541,696	40,542,210
Deferred Outflows of Resources:		
Deferred amounts on bond refunding	210,683	114,112
Deferred amounts on pension funding	<u>344,408</u>	<u>239,312</u>
Total Deferred Outflows of Resources	<u>555,091</u>	<u>353,424</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 40,096,787</u>	<u>\$ 40,895,634</u>

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2020</u>	<u>2019</u>
Current Liabilities:		
Accounts payable	\$ 120,517	\$ 62,740
Accrued expenses	55,570	61,394
Bonds payable, current	135,000	370,000
Current Liabilities Payable from Restricted Assets:		
Accrued interest payable	25,815	44,600
Total Current Liabilities	336,902	538,734
Noncurrent Liabilities:		
Bonds payable	14,353,420	14,238,791
Closure and postclosure liability	580,676	563,721
Net pension liability	1,854,434	1,656,746
Total Noncurrent Liabilities	16,788,530	16,459,258
Total Liabilities	17,125,432	16,997,992
Deferred Inflows of Resources:		
Deferred amounts on pension funding	123,814	136,075
NET POSITION		
Net investment in capital assets	14,476,596	15,594,243
Restricted For		
Debt service	598,411	700,450
Unrestricted	7,772,534	7,466,874
Total Net Position	22,847,541	23,761,567
Total Liabilities, Deferred Inflows of Resources, and Total Net Position	\$ 40,096,787	\$ 40,895,634

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Sewer charges	\$ 4,878,635	\$ 4,956,438
Other	35,149	40,323
Total Operating Revenues	<u>4,913,784</u>	<u>4,996,761</u>
Operating Expenses:		
Salaries and benefits	1,882,211	1,958,420
Supplies	91,008	98,819
Contract services	375,398	323,997
Maintenance and repair	353,823	301,836
Insurance	35,666	33,359
Utilities	315,646	352,031
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,053,752</u>	<u>3,068,462</u>
Provisions For:		
Depreciation	2,085,759	2,049,167
Closure and post-closure care costs	16,955	27,380
	<u>2,102,714</u>	<u>2,076,547</u>
Operating Income (Loss)	(242,682)	(148,248)
Nonoperating Revenues (Expenses):		
Interest income	185,640	212,597
Interest expense	(523,365)	(537,710)
Bond issue costs	(86,521)	-
Total Nonoperating Revenues (Expenses)	<u>(424,246)</u>	<u>(325,113)</u>
Change in Net Position Before Capital Contributions	(666,928)	(473,361)
Capital Contributions	<u>200,851</u>	<u>121,566</u>
Change in Net Position	(466,077)	(351,795)
Net Position, Beginning of Year	23,313,618	24,113,361
Restatement - Prior Period Adjustment	<u>-</u>	<u>(447,949)</u>
Net Position, Beginning of Year, As Restated	<u>23,313,618</u>	<u>23,665,412</u>
Net Position, End of Year	<u>\$ 22,847,541</u>	<u>\$ 23,313,618</u>

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 4,913,378	\$ 4,830,801
Other receipts	35,149	40,325
Payments to employees	(1,801,880)	(1,851,332)
Payments to suppliers	(802,399)	(705,036)
Payments for other administration costs	(316,604)	(386,220)
Net Cash Provided by Operating Activities	<u>2,027,644</u>	<u>1,928,538</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(628,104)	(624,563)
Bond issuance costs	(86,521)	-
Principal paid on outstanding bonds payable	(14,385,000)	(460,000)
Interest paid on bonds payable	(431,738)	(546,695)
Proceeds from issuance of bonds payable	<u>14,057,646</u>	<u>-</u>
Net Cash Used in Capital and Related Financing Activities	(1,473,717)	(1,631,258)
Cash Flows from Investing Activities:		
Interest on investments	<u>185,640</u>	<u>212,597</u>
Net Cash Provided by Investing Activities	<u>185,640</u>	<u>212,597</u>
Net Increase in Cash and Cash Equivalents	739,567	509,878
Cash and Cash Equivalents at Beginning of Year	<u>8,960,314</u>	<u>8,450,436</u>
Cash and Cash Equivalents at End of Year	<u>\$ 9,699,880</u>	<u>\$ 8,960,314</u>

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:		
Operating income (loss)	\$ (242,682)	\$ (148,248)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	2,085,759	2,049,167
Closure and post-closure care costs	16,955	27,380
Change in operating assets and liabilities:		
Accounts receivable - customers	41,520	(119,390)
Revenues earned and unbilled	(6,777)	(6,247)
Inventories of materials and supplies	1,543	25,078
Prepaid items	(958)	(1,109)
Accounts payable	57,777	3,852
Accrued liabilities	(5,824)	(9,035)
Net pension liability and related accounts	80,331	107,090
Net Cash Provided by Operating Activities	<u>\$ 2,027,644</u>	<u>\$ 1,928,538</u>

Reconciliation of Total Cash and Cash Equivalents

Current Assets:		
Cash and cash equivalents	\$ 9,101,469	\$ 8,259,864
Restricted for bond requirements-cash and cash equivalents	68,414	124,216
Noncurrent Assets:		
Restricted for bond requirements-cash and cash equivalents	529,997	576,234
Total Cash and Cash Equivalents	<u>\$ 9,699,880</u>	<u>\$ 8,960,314</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

During 2020, the Utility received donated sewer lines capitalized in the amount of \$200,851.

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

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of Jacksonville Wastewater Utility (“JWU” or the “Utility”), a component unit (Enterprise Fund) of the City of Jacksonville, Arkansas (the “City”), conform to generally accepted accounting principles for state and local governments. The Utility was established to operate the municipally owned wastewater treatment and collection system. JWU provides wastewater treatment services to residential, industrial and commercial customers located in Jacksonville, and to the Little Rock Air Force Base, located inside the city limits of Jacksonville. These services consist of treatment and disposal of sewer water, inspection and repair of sewer lines, and construction of sewer treatment plants, rehabilitation projects, and spot repairs. The Utility had approximately 9,600 and 9,674 customers at December 31, 2020 and 2019, respectively. The governing body is a five-member board appointed by the Jacksonville City Council. JWU is financially accountable to the City of Jacksonville because the Mayor and City Council must approve any rate adjustments and debt issuances.

B. Basis of Accounting

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

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

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

Restricted – consists of constraints placed on net assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting, Continued

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

JWU's accounting and financial reporting practices are similar to those used for business enterprises; therefore, the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues from assessments levied, industrial surcharges, connection fees, and other sewer fees are reported as operating revenues. Transactions which are capital, financing, or investing related are reported as nonoperating revenues. All expenses related to operating the sewer system such as salaries, benefits, supplies, utilities, and administrative costs are reported as operating expenses. Interest expense and financing costs are reported as nonoperating expenses.

C. Cash and Cash Equivalents

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

D. Accounts Receivable

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

Generally accepted accounting principles require the reserve method to be used to account for bad debts; however, the use of the method described above does not result in a material difference between that and the reserve method. JWU recorded \$23,210 and \$8,881 in bad debt expense related to operating revenues for the years ended December 31, 2020 and 2019, respectively. Recoveries of items previously charged off are recognized as revenue when received.

E. Inventories

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets, Capital Contributions and Capital Asset Impairment

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

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

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

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

G. Deferred Outflows/Inflows of Resources

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

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Deferred Outflows/Inflows of Resources, Continued

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

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

H. Compensated Absences

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

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

I. Use of Estimates

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

J. Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net position.

K. Date of Management’s Review

Management has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2020 through April 30, 2021 the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

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NOTE 2: CASH AND CASH EQUIVALENTS

Deposits

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

The Utility had deposits with financial institutions of \$9,139,153 at December 31, 2020 and \$8,323,583 at December 31, 2019. The Utility had deposits on books of \$9,100,969 at December 31, 2020 and \$8,259,364 at December 31, 2019. The greatest credit risk exposure would be uninsured portions not collateralized since the collateral is not held by the financial institution itself. All collateralized amounts are in the name of JWU. At December 31, 2020 and 2019 deposits were fully covered by FDIC insurance and appropriate collateralization.

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

	<u>2020</u>	<u>2019</u>
Construction fund	\$ 1,491,950	\$ 1,509,811
Emergency equipment replacement fund	500,000	500,000
Emergency capital reserve fund	651,808	601,808
Equipment fund	139,441	115,716
Depreciation fund	223,023	189,836
Pump station fund	123,042	110,774
	<u>\$ 3,129,264</u>	<u>\$ 3,027,945</u>

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NOTE 3: RESTRICTED ASSETS

Assets restricted to meet the requirements each of the Utility's bond issues include the following accounts:

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

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

NOTE 4: CONCENTRATION OF RISK

At December 31, 2020 and 2019, JWU had accounts receivable from the Little Rock Air Force Base totaling \$51,046 and \$98,654, respectively, representing approximately 7% and 8%, respectively of total accounts receivable included in the accompanying statements of net position.

Sewer service revenue received from the Little Rock Air Force Base amounted to \$499,479 in 2020 and \$554,388 in 2019 or approximately 10% and 11% of the total sewer service revenue received by the Utility for the years ended December 31, 2020 and 2019, respectively.

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NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019 is presented as follows:

<u>2020</u>	<u>Balance</u> <u>12/31/19</u>	<u>Additions and</u> <u>Transfers, Net</u>	<u>Retirements and</u> <u>Transfers, Net</u>	<u>Balance</u> <u>12/31/20</u>
Capital assets not being depreciated				
Land and easements	\$ 411,491	\$ -	\$ -	\$ 411,491
Construction in progress	<u>107,715</u>	<u>529,413</u>	<u>416,752</u>	<u>220,376</u>
Total capital assets, not being depreciated	<u>519,206</u>	<u>529,413</u>	<u>416,752</u>	<u>631,867</u>
Capital assets being depreciated				
Buildings and improvements	2,430,227	5,879	-	2,436,106
Infrastructure-collection and treatment	61,321,973	683,132	1,933	62,003,172
Equipment and vehicles	<u>2,520,654</u>	<u>29,357</u>	<u>-</u>	<u>2,550,011</u>
Total capital assets being depreciated	66,272,854	718,368	1,933	66,989,289
Less: accumulated depreciation	<u>36,544,426</u>	<u>2,087,833</u>	<u>1,933</u>	<u>38,630,326</u>
Capital Assets, Net	<u>\$ 30,247,634</u>	<u>\$ (840,052)</u>	<u>\$ 416,752</u>	<u>\$ 28,990,831</u>
<u>2019</u>	<u>Balance</u> <u>12/31/18</u>	<u>Additions and</u> <u>Transfers, Net</u>	<u>Retirements and</u> <u>Transfers, Net</u>	<u>Balance</u> <u>12/31/19</u>
Capital assets not being depreciated				
Land and easements	\$ 411,491	\$ -	\$ -	\$ 411,491
Construction in progress	<u>82,379</u>	<u>493,780</u>	<u>468,444</u>	<u>107,715</u>
Total capital assets, not being depreciated	<u>493,870</u>	<u>493,780</u>	<u>468,444</u>	<u>519,206</u>
Capital assets being depreciated				
Buildings and improvements	2,414,955	17,617	2,345	2,430,227
Infrastructure-collection and treatment	60,663,613	684,473	26,113	61,321,973
Equipment and vehicles	<u>2,518,549</u>	<u>18,702</u>	<u>16,597</u>	<u>2,520,654</u>
Total capital assets being depreciated	65,597,117	720,792	45,055	66,272,854
Less: accumulated depreciation	<u>34,540,314</u>	<u>2,049,167</u>	<u>45,055</u>	<u>36,544,426</u>
Capital Assets, Net	<u>\$ 31,550,673</u>	<u>\$ (834,595)</u>	<u>\$ 468,444</u>	<u>\$ 30,247,634</u>

Depreciation expense was \$2,085,759 and \$2,049,167 for the years ended December 31, 2020 and 2019, respectively.

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NOTE 6: CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in aid of construction, as a result of acceptance of sewer lines from private contractors and individuals were \$200,851 and \$121,566 for the years ended December 31, 2020 and 2019, respectively.

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Wastewater Revenue Bonds for which the changes in the years ended December 31, 2020 and 2019 are as follows:

	<u>2020</u>				
	Balance at December 31, 2019	Increases	Decreases	Balance at December 31, 2020	Amount Due Within One Year
Wastewater revenue bonds	\$ 14,385,000	\$ 14,620,000	\$ 14,385,000	\$ 14,620,000	\$ 135,000
Add issuance premium	223,790	-	223,790	-	-
Less bond discount	-	(131,580)	-	(131,580)	-
Total long-term liabilities	<u>\$ 14,608,790</u>	<u>\$ 14,488,420</u>	<u>\$ 14,608,790</u>	<u>\$ 14,488,420</u>	<u>\$ 135,000</u>

	<u>2019</u>				
	Balance at December 31, 2018	Increases	Decreases	Balance at December 31, 2019	Amount Due Within One Year
Wastewater revenue bonds	\$ 14,845,000	\$ -	\$ 460,000	\$ 14,385,000	\$ 370,000
Add issuance premium	241,200	-	17,410	223,790	-
Total long-term liabilities	<u>\$ 15,086,200</u>	<u>\$ -</u>	<u>\$ 477,410</u>	<u>\$ 14,608,790</u>	<u>\$ 370,000</u>

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NOTE 7: LONG-TERM DEBT (Continued)

Wastewater Revenue Bonds

Wastewater Refunding Revenue Bonds, Series 2016A

In April, 2016 the City of Jacksonville, Arkansas issued \$1,865,000 in Wastewater Refunding Revenue Bonds with an interest rate of 2.5% for the purpose of refunding the then outstanding Series 2009A Bonds. The Series 2016A Bonds were special obligations secured by the pledge of and payable from revenues derived from the operations of the City's Wastewater Utility system. Principal payments were due annually on December 1 with the final payment scheduled in 2020. Interest payments were due semiannually on June 1 and December 1. Maturity dates were 2010 to 2020.

Wastewater Construction Revenue Bonds, Series 2016B

In April, 2016, the City of Jacksonville, Arkansas issued \$14,015,000 in Wastewater Refunding Revenue Bonds with an interest rates ranging from 3.5% to 4.0% for the purpose of refunding the then outstanding Series 2009B Bonds. The Series 2016B Bonds were special obligations secured by the pledge of and payable from revenues derived from the operations of the City's Wastewater Utility system. Principal payments were due annually on December 1 with the final payment scheduled in 2039. Interest payments were due semiannually on June 1 and December 1. Maturity dates were 2023 to 2039. The bonds were redeemed by the Series 2020 issue.

Wastewater Refunding Revenue Bonds, Series 2020

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

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

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

The Utility paid approximately \$431,738 and \$546,694 in interest charges related to the bonds for the years ended December 31, 2020 and 2019, respectively.

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NOTE 7: LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The following schedules show the annual debt service requirements to pay principal and interest on the revenue bonds payable outstanding at December 31, 2020:

<u>Year Ending</u> <u>December 31,</u>	<u>Wastewater Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 135,000	\$ 296,596	\$ 431,596
2022	140,000	295,624	435,624
2023	580,000	294,545	874,545
2024	765,000	289,615	1,054,615
2025	775,000	281,736	1,056,736
2026 to 2030	4,055,000	1,231,733	5,286,733
2031 to 2035	4,470,000	817,778	5,287,778
2036 to 2039	3,700,000	241,380	3,941,380
	<u>\$ 14,620,000</u>	<u>\$ 3,749,007</u>	<u>\$ 18,369,007</u>

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM

Arkansas Public Employees Retirement System (APERS)

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

Plan Description

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

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

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NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). Membership includes three state and three non-state employees, all appointed by the Governor, and three ex-officio trustees, including the Auditor of the State, the Treasurer of the State and the Director of the Department of Finance and Administration.

Benefits Provided

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

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

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

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

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

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

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NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

Contributions

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

Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% and 15.32% of compensation for the plan years ended June 30, 2020 and 2019, respectively. Contributions to the pension plan from JWU were \$191,120 and \$191,949 for the years ended December 31, 2020 and 2019.

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

At December 31, 2020 and 2019, JWU reported a liability of \$1,854,434 and \$1,656,746, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. JWU's proportion of the net pension liability was based on JWU's contributions to the pension plan relative to the contributions of all participating APERS members. At June 30, 2020 JWU's proportion was 0.06475920%, which was a decrease of 0.00391339% from its proportion measured as of June 30, 2019, of 0.06867259%.

For the years ended December 31, 2020 and 2019, JWU recognized pension expense of \$271,451 and \$298,850, respectively. At December 31, 2020 and 2019, JWU reported deferred outflows and inflows of resources related to pensions from the following sources:

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NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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

	<u>2020</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 196,223	\$ -
Differences between expected and actual economic experience	24,618	1,228
Changes of actuarial assumptions	23,234	31,773
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,282	90,813
JWU contributions subsequent to the measurement date	<u>97,051</u>	<u>-</u>
	<u>\$ 344,408</u>	<u>\$ 123,814</u>
	<u>2019</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 12,584
Differences between expected and actual economic experience	45,090	2,461
Changes of actuarial assumptions	89,924	63,688
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,812	57,342
JWU contributions subsequent to the measurement date	<u>99,486</u>	<u>-</u>
	<u>\$ 239,312</u>	<u>\$ 136,075</u>

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NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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

The \$97,051 reported as deferred outflows of resources at December 31, 2020 related to pensions resulting from JWU's contributions subsequent to the measurement date will be recognized as a reduction of the pension liability in the year ended December 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31:</u>	
2021	\$ (24,951)
2022	33,740
2023	57,748
2024	<u>57,006</u>
	<u>\$ 123,543</u>

Actuarial Assumptions

The total pension liability, net pension liability and certain sensitivity information was determined by an actuarial valuation as of June 30, 2020. The significant assumptions used in the valuation and adopted by the APERS Board of Trustees, were as follows:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Investment Rate of Return	7.15%, net of investment administrative expenses
Discount Rate	7.15%
Salary Increases	3.25 – 9.85%, including inflation
Inflation	3.25% wage inflation, 2.50% price inflation
Mortality Table	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System’s target asset allocation as of June 30, 2020 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	<u>18%</u>	0.57%
Total	<u>100%</u>	
Total Real Rate of Return		4.93%
Plus Price Inflation-Actuary Assumption		<u>2.50%</u>
Net Expected Return		<u>7.43%</u>

Discount Rate

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

JACKSONVILLE WASTEWATER UTILITY
 (A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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

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

Sensitivity of Discount Rate		
1% Lower	Discount Rate	1% Higher
6.15%	7.15%	8.15%
\$ 2,824,441	\$ 1,854,434	\$ 1,053,960

Pension Plan Fiduciary Net Position

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

NOTE 9: DEFERRED COMPENSATION PLAN

JWU offers its employees the option to participate in a deferred compensation plan. The purpose of the plan is to provide retirement income and other deferred benefits to JWU employees. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The employee provides all amounts of compensation under the plan. JWU does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees’ contributions to the trustees. Accordingly, JWU has not presented the assets and liabilities from the plan in these financial statements. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

At December 31, 2020, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust by external administrators for the exclusive benefit of participants and their beneficiaries.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 10: SEWER BILLING CONTRACT

Customer billing and collection services are provided to the Utility by Jacksonville Municipal Water Works. JWU pays Jacksonville Municipal Water Works a monthly rate per sewer customer as outlined in the contract. Such payments amounted to \$86,394 and \$87,419 for the years ended December 31, 2020 and 2019, respectively, and are included as operating expenses in the accompanying statements of revenues, expenses and changes in net position.

NOTE 11: RISK MANAGEMENT

The Utility has purchased insurance policies for various risks of loss related to theft, damage, or destruction of assets, and workers compensation. Coverage is provided through the Arkansas Municipal League which is an association of local governments. Payments and premiums for these policies are recorded as expenses of the Utility. There have been no significant reductions in insurance coverage from 2019 to 2020, and there were no settlements that exceeded insurance coverage in the past three fiscal years.

NOTE 12: CLOSURE AND POST-CLOSURE CARE COSTS

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

Estimated closure and post-closure care costs are based on the annual engineering inspection report submitted to the Arkansas Department of Environmental Quality for the 2019 year. The liability for post-closure of \$580,676 is based upon capacity used during 2019 and is reported in other long-term liabilities. At December 31, 2019, the estimated total closure and post-closure care costs remaining to be recognized is approximately \$1,361,617. Capacity used to date is 61.4% and the estimated remaining life is 58.9 years. As of December 31, 2020, the 2020 engineering report was not available.

NOTE 13: PRIOR PERIOD ADJUSTMENT

The prior year financial statements reflect an adjustment to correct an error due to a misstatement in amounts receivable from Jacksonville Municipal Water Works. The adjustment, determined by the management of Jacksonville Municipal Water Works, resulted from the understatement of allocated bad debts attributable to JWU.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 14: COMMITMENTS

At December 31, 2020 and 2019, JWU had outstanding commitments under contracts for engineering services related to improvements of the municipal wastewater system in the amount of \$1,649,526 and \$40,638, respectively.

NOTE 15: SUBSEQUENT EVENTS

Jacksonville Wastewater Utility did not have any recognized or nonrecognized subsequent events occur after December 31, 2020, the date of the statement of net position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through April 30, 2021, the date the financial statements were available to be issued.

Schedules of Required Supplementary Information
JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULE OF JWU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
JWU's proportion of the net pension liability	0.06475920%	0.06867259%	0.06838261%	0.07131173%
JWU's proportionate share of the net pension liability	\$ 1,854,434	\$ 1,656,746	\$ 1,508,476	\$ 1,842,795
JWU's covered-employee payroll	\$ 1,263,419	\$ 1,314,149	\$ 1,280,805	\$ 1,285,256
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	146.78%	126.07%	117.78%	143.38%
Plan fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%	75.65%
APERS discount rate	7.15%	7.15%	7.15%	7.15%
	<u>2016</u>	<u>2015</u>		
JWU's proportion of the net pension liability	0.07483451%	0.07782077%		
JWU's proportionate share of the net pension liability	\$ 1,789,554	\$ 1,433,251		
JWU's covered-employee payroll	\$ 1,321,144	\$ 1,384,654		
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	135.45%	103.51%		
Plan fiduciary net position as a percentage of the total pension liability	75.50%	80.39%		
APERS discount rate	7.50%	7.50%		

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

See independent auditor's report.

Schedules of Required Supplementary Information
JACKSONVILLE WASTEWATER UTILITY
 (A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULE OF CONTRIBUTIONS
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortized Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	4-Year smoothed market, 25% corridor
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation; 2.50% price inflation
Salary Increases	3.25% - 9.85% including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	Based on RP-2000 Combined Health mortality table, projected to 2020 using Projection Scale BB set-forward 2 years for males and 1 year for females
Average service life of all members	4.1431

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

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2020

	<u>Original and</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over (Under)</u>
Operating Revenues:			
Sewer charges	\$ 4,775,264	\$ 4,878,635	\$ 103,371
Other income	34,700	35,149	449
Total Operating Revenues	<u>4,809,964</u>	<u>4,913,784</u>	<u>103,820</u>
Operating Expenses:			
Technical service	568,464	549,664	(18,800)
Treatment	1,183,597	1,147,107	(36,490)
Collection system	742,357	621,922	(120,435)
Laboratory services	225,517	238,584	13,067
Administrative	506,887	496,475	(10,412)
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,226,822</u>	<u>3,053,752</u>	<u>(173,070)</u>
Provisions For:			
Depreciation	2,100,000	2,085,759	(14,241)
Closure and post-closure care costs	40,000	16,955	(23,045)
	<u>2,140,000</u>	<u>2,102,714</u>	<u>(37,286)</u>
Operating Income (Loss)	(556,857)	(242,682)	314,175
Nonoperating Revenues (Expenses):			
Interest income	120,000	185,640	65,640
Interest expense	(526,877)	(523,365)	3,512
Bond issue costs	-	(86,521)	(86,521)
Total Nonoperating Revenues (Expenses)	<u>(406,877)</u>	<u>(424,246)</u>	<u>(17,369)</u>
Change in Net Position Before Capital Contributions	<u>\$ (963,734)</u>	<u>\$ (666,928)</u>	<u>\$ 296,806</u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Technical Services		
Salaries	\$ 318,114	\$ 324,001
Employee benefits	162,468	170,212
Supplies	14,169	15,739
Contract services	17,405	17,733
Repairs and maintenance	27,889	23,601
Insurance	5,339	5,291
Utilities	4,280	3,250
Total Technical Services	<u>549,664</u>	<u>559,827</u>
Treatment		
Salaries	346,313	391,344
Employee benefits	181,577	198,750
Supplies	24,173	34,154
Contract services	56,503	28,653
Repairs and maintenance	215,099	149,910
Insurance	22,531	20,526
Utilities	300,911	339,092
Total Treatment	<u>1,147,107</u>	<u>1,162,429</u>
Collection System		
Salaries	308,271	351,212
Employee benefits	172,449	194,892
Supplies	22,894	23,495
Contract services	648	3,229
Repairs and maintenance	108,479	124,279
Insurance	5,845	5,748
Utilities	3,336	3,347
Total Collection System	<u>621,922</u>	<u>706,202</u>
Laboratory Services		
Salaries	131,155	123,058
Employee benefits	61,983	62,792
Supplies	16,110	10,108
Contract services	24,460	19,729
Repairs and maintenance	2,296	2,139
Insurance	1,448	1,339
Utilities	1,132	961
Total Laboratory Services	<u>238,584</u>	<u>220,126</u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
EXCLUDING DEPRECIATION (Continued)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Administrative		
Salaries	\$ 138,823	\$ 92,761
Employee benefits	61,058	49,398
Supplies	13,663	15,324
Contract services	276,382	254,653
Repairs and maintenance	60	1,907
Insurance	503	455
Utilities	5,986	5,380
Total Administrative	<u>496,475</u>	<u>419,878</u>
 Total Operating Expenses	 <u>\$ 3,053,752</u>	 <u>\$ 3,068,462</u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2020

Wastewater Refunding Revenue Bonds, Series 2020

<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual Requirement</u>
		<u>6/01</u>	<u>12/01</u>	<u>6/01</u>	<u>12/01</u>	
2021	0.720%	-	\$ 135,000	\$ 148,298	\$ 148,298	\$ 431,596
2022	0.770%	-	140,000	147,812	147,812	435,624
2023	0.850%	-	580,000	147,273	147,273	874,546
2024	1.030%	-	765,000	144,808	144,808	1,054,616
2025	1.230%	-	775,000	140,868	140,868	1,056,736
2026	1.500%	-	785,000	136,102	136,102	1,057,204
2027	1.600%	-	795,000	130,214	130,214	1,055,428
2028	1.750%	-	810,000	123,854	123,854	1,057,708
2029	1.900%	-	825,000	116,767	116,767	1,058,534
2030	1.950%	-	840,000	108,929	108,929	1,057,858
2031	2.060%	-	855,000	100,739	100,739	1,056,478
2032	2.170%	-	875,000	91,933	91,933	1,058,866
2033	2.270%	-	895,000	82,439	82,439	1,059,878
2034	2.370%	-	910,000	72,281	72,281	1,054,562
2035	2.470%	-	935,000	61,497	61,497	1,057,994
2036	2.700%	-	960,000	49,950	49,950	1,059,900
2037	2.700%	-	985,000	36,990	36,990	1,058,980
2038	2.700%	-	1,010,000	23,693	23,693	1,057,386
2039	2.700%	-	745,000	10,057	10,057	765,114
		<u>\$ -</u>	<u>\$ 14,620,000</u>	<u>\$ 1,874,504</u>	<u>\$ 1,874,504</u>	<u>\$ 18,369,008</u>

See independent auditor's report.

McAlister & Associates, P. A.

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners
Jacksonville Wastewater Utility
Jacksonville, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Jacksonville Wastewater Utility (the Utility), a component unit of the City of Jacksonville, Arkansas, which comprise the statement of net position as of December 31, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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 the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McAlister & Associates, P.A.

Certified Public Accountants
Jacksonville, Arkansas
April 30, 2021