

SUPPLEMENT TO
OFFICIAL STATEMENT DATED JULY 30, 2020
relating to
\$14,620,000
CITY OF JACKSONVILLE, ARKANSAS
WASTEWATER REFUNDING REVENUE BONDS
SERIES 2020 (Federally Taxable)

This Supplement presents information supplementing the Official Statement dated July 30, 2020 (the “Official Statement”), relating to the \$14,620,000 City of Jacksonville, Arkansas Wastewater Refunding Revenue Bonds, Series 2020 (Federally Taxable) (the “Bonds”). This Supplement should be attached to and read together with the Official Statement, which is hereby incorporated by reference.

The Bonds will not be subject to redemption at the option of the City on and after June 1, 2027, but shall be subject to redemption at the option of the City on and after December 1, 2027. All references to the optional redemption date of June 1, 2027, set forth in the Official Statement shall be amended to reflect December 1, 2027.

CITY OF JACKSONVILLE, ARKANSAS

By: /s/Bob Johnson
Bob Johnson, Mayor

Dated: August 17, 2020

**(BOOK-ENTRY ONLY)
NEW ISSUE**

**RATING: S&P Global Ratings “A+ Stable Outlook”
(See “MISCELLANEOUS, Rating” herein)**

*Bond Counsel is of the opinion that interest on the Bonds is not excludable from gross income for federal income tax purposes. In Bond Counsel’s further opinion, under existing law, the Bonds and interest thereon are exempt from all Arkansas state, county, and municipal taxes. (See **LEGAL MATTERS-Tax Exemption-Opinion of Bond Counsel**).*

**\$14,620,000
CITY OF JACKSONVILLE, ARKANSAS
WASTEWATER REFUNDING REVENUE BONDS,
SERIES 2020 (Federally Taxable)**

Dated: Date of Delivery

Due: As shown on the inside front cover

The City of Jacksonville, Arkansas Wastewater Refunding Revenue Bonds, Series 2020 (Federally Taxable) are referred to as the “Bonds.” The Bonds will not be general obligations of the City of Jacksonville, Arkansas (the “City”) but will be special obligations, secured by a pledge of and payable from Net Revenues (as defined in the Authorizing Ordinance) derived from the operation of the City’s wastewater system (the “System”), which is operated by the Jacksonville Wastewater Utility (the “Utility”). See **THE BONDS, Security**.

Interest on the Bonds is payable on June 1 and December 1 of each year, commencing December 1, 2020. The Bonds of each maturity will be initially issued as a single registered bond registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”), New York, New York. The Bonds will be available for purchase in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Except in limited circumstances described herein, purchasers of the Bonds will not receive physical delivery of Bonds. Payments of principal of and interest on the Bonds will be made by Bank OZK, as the Trustee, directly to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC Participants and thereafter to the Beneficial Owners of the Bonds, all as further described herein.

The Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity, as more fully described herein.

(SEE INSIDE FRONT COVER FOR THE MATURITY SCHEDULES AND INTEREST RATES)

The Bonds are offered when, as and if issued and received by the Underwriter named below, subject to approval as to legality by Wright, Lindsey & Jennings LLP, Bond Counsel, and subject to satisfaction of certain other conditions. Certain legal matters will be passed upon for the City and the Utility by their counsel, Stephanie Friedman. It is expected that the Bonds will be available for delivery in New York, New York on or about August 27, 2020.

This cover page contains information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Stephens Inc.

Dated: July 30, 2020

MATURITIES, AMOUNTS, PRICES, AND INTEREST RATES

**\$14,620,000
CITY OF JACKSONVILLE, ARKANSAS
WASTEWATER REFUNDING REVENUE BONDS,
SERIES 2020 (Federally Taxable)**

The Bonds mature, bear interest, and are priced to yield as follows:

\$10,920,000 Serial Bonds

Maturity (December 1)	Principal Amount	Interest Rate (%)	Yield (%)	CUSIP⁽²⁾ Number
2021	\$135,000	0.720%	0.720%	46923P AX9
2022	140,000	0.770%	0.770%	46923P AY7
2023	580,000	0.850%	0.850%	46923P AZ4
2024	765,000	1.030%	1.030%	46923P BA8
2025	775,000	1.230%	1.230%	46923P BB6
2026	785,000	1.500%	1.500%	46923P BC4
2027	795,000	1.600%	1.600%	46923P BD2
2028	810,000	1.750%	1.750%	46923P BE0
2029	825,000	1.900%	1.900%	46923P BF7
2030	840,000	1.950%	1.950%	46923P BG5
2031	855,000	2.060%	2.060%	46923P BH3
2032	875,000	2.170%	2.170%	46923P BJ9
2033	895,000	2.270%	2.270%	46923P BK6
2034	910,000	2.370%	2.370%	46923P BL4
2035	935,000	2.470%	2.470%	46923P BM2

\$3,700,000 Term Bond

\$3,700,000 2.700% Term Bond⁽¹⁾ Due December 1, 2039; Yield 2.700%;
CUSIP Number: 46923P BN0

⁽¹⁾ Term Bond, subject to mandatory sinking fund redemption.

⁽²⁾ Copyright 2019, CUSIP Global Services. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. CUSIP numbers are provided for convenience of reference only. The City and the Underwriters are not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds.

No dealer, broker, salesman, or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any offer, solicitation, or sale of the Bonds by or to any person in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale.

The information set forth herein under the captions “**DESCRIPTION OF THE CITY OF JACKSONVILLE,**” “**THE SYSTEM,**” “**DEBT SERVICE COVERAGE,**” “**DEBT SERVICE REQUIREMENTS,**” and “**FINANCIAL INFORMATION**” has been furnished by the City or the Utility, except where otherwise noted. All other information set forth herein has been obtained from sources other than the City or the Utility that are believed to be reliable, but the adequacy, accuracy, or completeness of such information is not guaranteed by, and it is not to be construed as a representation by, the City, the Utility, or Bond Counsel. The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that there has been no change in the matters described herein since the date hereof or that the information herein is correct as of any time subsequent to its date.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Authorizing Ordinance described herein been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon certain exemptions in such laws from such registration and qualification.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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EXHIBIT A - Audited Financial Statements of the Utility for the Fiscal Years
Ended December 31, 2018 and 2017

EXHIBIT B - Audited Financial Statements of the Utility for the Fiscal Years
Ended December 31, 2019 and 2018

OFFICIAL STATEMENT

\$14,620,000

CITY OF JACKSONVILLE, ARKANSAS WASTEWATER REFUNDING REVENUE BONDS, SERIES 2020 (Federally Taxable)

INTRODUCTION TO THE OFFICIAL STATEMENT

This Introduction is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement, including the cover page hereof and exhibits hereto. A full review should be made of the entire Official Statement, as well as the Authorizing Ordinance described herein.

This Official Statement is provided to furnish certain information in connection with the issuance by the City of Jacksonville, Arkansas (the “City”), of its \$14,620,000 principal amount of Wastewater Refunding Revenue Bonds, Series 2020 (Federally Taxable), dated the date of delivery (the “Bonds”). The Bonds are being issued to (i) advance refund the City’s Wastewater Refunding Revenue Bonds, Series 2016B (Non-AMT), (ii) fund a debt service reserve, and (iii) pay expenses incidental thereto and to the authorization and issuance of the Bonds. See **THE BONDS, Purposes for Bonds**.

The City is a city of the first class organized under the laws of the State of Arkansas (the “State”) located in Pulaski County, Arkansas which is in central Arkansas. The City is authorized and empowered under the laws of the State, including particularly Amendment 65 to the Constitution of the State (the “Amendment”), and Title 14, Chapter 164, Subchapter 4 and Title 14, Chapter 235, Subchapter 2 of the Arkansas Code of 1987 Annotated (together, the “Authorizing Legislation”), to issue revenue bonds and to expend the proceeds thereof for the intended purposes. See **DESCRIPTION OF THE CITY OF JACKSONVILLE**.

The Bonds are not general obligations of the City, but are special obligations payable solely from the Net Revenues (as defined in the Authorizing Ordinance), derived from the operation of the System (“Pledged Revenues”). See **SOURCES AND USES OF FUNDS, Security**. The Bonds are being issued pursuant to and in full compliance with the Constitution and laws of the State, particularly the Amendment and the Authorizing Legislation, and Ordinance No. 1635 (#09-2020) adopted on July 16, 2020 (the “Authorizing Ordinance”). See **THE AUTHORIZING ORDINANCE**.

The Bonds are issuable only as fully registered bonds, without coupons, in the denomination of \$5,000 or integral multiple thereof. Interest is payable December 1, 2020, and semiannually thereafter on each June 1 and December 1. Principal is payable at the principal office of Bank OZK, Little Rock, Arkansas, as trustee and paying agent (the “Trustee”). Interest is payable by check mailed by the Trustee to the registered owners as of the record date for each interest payment date. The record date for payment of interest on the Bonds shall be the fifteenth (15th) day of the calendar month (whether or not a business day) next preceding each interest payment date. A Bond may be transferred, in whole or in part (in integral multiples of \$5,000), but only upon delivery of the Bond, together with a written instrument of transfer, to the Trustee. See **THE BONDS, Generally and Book-Entry Only System**.

The Bonds are subject to optional redemption on and after June 1, 2027. The Term Bonds shown on the inside front cover of this Official Statement are also subject to mandatory sinking fund redemption as described herein. The Trustee shall give at least thirty (30) days’ notice of redemption. See **THE BONDS, Redemption**.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Bonds is not excludable from gross income for federal income tax purposes; and (ii) the Bonds are exempt from all Arkansas state, county, and municipal taxes. See **LEGAL MATTERS, Tax Exemption-Opinion of Bond Counsel**.

It is expected that the Bonds will be available for delivery on or about August 27, 2020, through the facilities of The Depository Trust Company, in New York, New York.

The City and the Trustee have entered into a Continuing Disclosure Agreement in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Continuing Disclosure Agreement”). See **CONTINUING DISCLOSURE AGREEMENT**.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Authorizing Ordinance and the Continuing Disclosure Agreement summarized herein are available upon request from Stephens Inc., 111 Center Street, Suite 2300, Little Rock, Arkansas 72201, Attention: Public Finance.

THE BONDS

Book-Entry Only System. The Depository Trust Company (“DTC”), New York, New York, or its successor, will act as securities depository for the Bonds. The Bonds will each be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity, each in the aggregate principal amount of the maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”, together with Direct Participants, the “Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners

are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

So long as any Bond is registered in the name of DTC's nominee, all principal, interest, and premium, if any, payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information concerning DTC and DTC's book-entry system has been obtained from DTC. Neither the Underwriter nor the City make any representation or warranty regarding the accuracy or completeness thereof.

So long as the Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Bonds for all purposes under the Authorizing Ordinance, including receipt of all principal of and interest on the Bonds, receipt of notices, voting, and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Authorizing Ordinance. The City and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant, (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds, (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Authorizing Ordinance to be given to owners of Bonds, or (d) other action taken by DTC or Cede & Co. as owner of the Bonds.

The information above concerning DTC and DTC's Book-Entry Only System has been obtained from sources that the City believes to be reliable, but is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the City, the Trustee, or the Underwriter. The City, the Trustee, and the Underwriter make no assurances that DTC, Direct Participants, Indirect Participants, or other nominees of the Beneficial Owners will act in accordance with the procedures described above or in a timely manner.

Generally. The Bonds are dated, mature, bear interest, and interest is payable on the Bonds as set forth on the inside cover page hereof.

The Bonds are issuable as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof, interchangeable in accordance with the provisions of the Authorizing Ordinance. In the event any Bond is mutilated, lost, or destroyed, the City shall, if not then prohibited by law, execute and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Authorizing Ordinance.

Each Bond is transferable by the registered owner thereof or by his attorney duly authorized in writing at the principal corporate trust office of the Trustee. Upon such transfer a new fully registered Bond or Bonds of the same maturity, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor.

No charge shall be made to any owner of any Bond for the privilege of registration, but any owner of any Bond requesting any such registration shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new Bond upon each exchange or transfer and any other expenses of the City or the Trustee incurred in connection therewith shall be paid by the City. Neither the City nor the Trustee shall be required (i) to issue, register the transfer of, or exchange any Bond during a period beginning at the opening of business fifteen (15) days before the date of the mailing of a notice of redemption of Bonds selected for redemption under the Authorizing Ordinance and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds selected for redemption in whole or in part, except the unredeemed portion of Bonds being redeemed in part.

The person in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of, premium, if any, or interest of any Bond shall be made only to or upon the order of the registered owner thereof or his legal representative,

but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday or Sunday or shall be in the State a legal holiday or a day on which banking institutions are authorized by law to close, then payment of interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after the date of maturity or date fixed for redemption.

Redemption. The Bonds shall be subject to optional and mandatory sinking fund redemption as follows:

(1) Optional Redemption. The Bonds are subject to redemption at the option of the City from funds from any source, in whole or in part at any time on and after June 1, 2027, prior to maturity from any moneys available therefor at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the Bonds shall be called for redemption, the particular maturities of the Bonds to be redeemed shall be selected by the City in its discretion. If fewer than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Trustee.

(2) Mandatory Sinking Fund Redemption. To the extent not previously redeemed, the Bonds maturing on December 1 in the year 2039 are subject to mandatory sinking fund redemption by lot in such manner as the Trustee shall determine, on December 1 in the years and in the amounts set forth below, at a redemption price equal to the principal amount being redeemed plus accrued interest to the date of redemption:

Bonds Maturing December 1, 2039

<u>Years</u>	<u>Principal Amounts</u>
2036	\$ 960,000
2037	985,000
2038	1,010,000
2039 (Final Maturity)	745,000

The provisions for mandatory sinking fund redemption of the Bonds are subject to the provisions of the Authorizing Ordinance which permit the City to receive credit for Bonds previously redeemed or for Bonds acquired by the City and surrendered to the Trustee.

Moneys available for redemption shall be applied to the redemption of the Bonds, in inverse order of maturities (Bonds within a maturity to be selected by lot in such manner as the Trustee shall determine to be fair and equitable). Bonds of denominations greater than \$5,000 may be redeemed partially in the amount of \$5,000, or any integral multiple thereof. In case any outstanding Bond is in a denomination greater than \$5,000, each \$5,000 of face value of such Bond shall be treated as a separate Bond of the denomination of \$5,000.

The Trustee shall give notice of the call for redemption by first-class mail, postage prepaid, placed in the mail not less than thirty (30), nor more than sixty (60), days prior to the date fixed for redemption, to the registered owner of any Bond called for redemption, addressed to such registered owner's registered address. Failure to mail an appropriate notice or any such notice to one or more registered owners of the Bonds to be redeemed shall not affect the validity of the proceedings for redemption of other Bonds as to which notice of redemption is duly given and in proper and timely fashion. All such Bonds thus called for

redemption shall cease to bear interest on and after the date fixed for redemption, provided funds for their redemption are on deposit with the Trustee at that time.

Notwithstanding the above, so long as the Bonds are issued in book-entry only form, if fewer than all the Bonds of an issue are called for redemption, the particular Bonds to be redeemed will be selected pursuant to the procedures established by DTC. So long as the Bonds are issued in book-entry only form, notice of redemption will be given only to Cede & Co., as nominee for DTC. **The Trustee will not give any notice of redemption to the Beneficial Owners of the Bonds.**

Purposes for Bonds. The purpose for issuing the Bonds is to advance refund the City's Wastewater Refunding Revenue Bonds, Series 2016B (Non-AMT) with a current outstanding principal balance of approximately \$14,015,000 (the "Series 2016B Bonds" or "Bonds to be Refunded"); fund a debt service reserve; and pay expenses of issuing the Bonds. The proceeds of the Series 2016B Bonds were used to currently refund the City's Wastewater Construction Revenue Bonds, Series 2009B (Non-AMT), which were used to finance the costs of sewer extensions, betterments, and improvements to the System.

SOURCES AND USES OF FUNDS

The sources and uses of funds to accomplish the Refunding are estimated by the City are as follows:

TOTAL SOURCES AND USES

<u>Sources of Funds</u>	<u>Issue Summary</u>
Par Amount of Bonds	\$ 14,620,000.00
Transfers from Prior Issue DSR Funds	508,559.50
Transfers from Prior Debt Service Funds	<u>155,135.15</u>
Total Sources	\$ 15,283,694.65
 <u>Uses of Funds</u>	
Deposit to Series 2016B Escrow Fund	\$ 14,526,744.55
Deposit to Debt Service Reserve Fund (DSRF)	529,950.00
Total Costs of Issuance and Underwriter's Discount	<u>227,000.10</u>
Total Uses	\$ 15,283,694.65

The payment of Underwriter's discount and the costs of issuing the Bonds relating to the payment of professional fees will be contingent on the Bonds being issued. See **MISCELLANEOUS, Underwriting** for a description of the Underwriter's discount. The City will deposit the principal amount of the Bonds less Underwriter's discount, debt service reserve deposit, refunding deposit, and certain issuance costs, into the bond fund established in connection with the Bonds to be Refunded, and will be applied to redeem in full the Bonds to be Refunded on June 1, 2021. For a description of how the Bond proceeds are to be invested pending use and the provisions governing those investments, see **THE AUTHORIZING ORDINANCE, Investments**.

Security. The Bonds are not general obligations of the City but are special obligations, payable solely from and secured by a pledge of Net Revenues (defined in the Authorizing Ordinance as gross revenues of the System less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal wastewater facilities excluding depreciation, interest and amortization of deferred bond discount expense), derived from the operation of the System (the "Pledged Revenues"). There is a Debt Service Reserve Fund (as defined below) securing the Bonds in an amount equal to the lesser of (a)

fifty percent (50%) of the maximum annual principal and interest requirements on the Bonds or (b) ten percent (10%) of the proceeds of the Bonds (including Underwriter's discount), (the "Required Level") or, in lieu thereof, a Surety Bond equal to the Required Level. The Bonds are secured under the Authorizing Ordinance. For a summary of the terms of the Authorizing Ordinance, see **THE AUTHORIZING ORDINANCE**. The City may issue additional Bonds on a parity of security with the Bonds. See **THE AUTHORIZING ORDINANCE, Parity Bonds**.

DESCRIPTION OF THE CITY OF JACKSONVILLE

Location. The City of Jacksonville (the "City") is located in the central part of the State approximately twelve (12) miles northeast of Little Rock, Arkansas. The City lies entirely within Pulaski County, Arkansas (the "County"). The area of the City is approximately twenty-nine (29) square miles. The City originated in the early 1870's and was incorporated as a first-class city in 1941.

The Population. According to the U. S. Bureau of Census, the population trends for the City since 2010 are set forth below:

<u>Year</u>	<u>City</u>	<u>Growth (%)</u>
2019	28,235 (Estimate)	0.73%
2018	28,266 (Estimate)	-0.36%
2017	28,506 (Estimate)	-0.33%
2016	28,645 (Estimate)	-0.04%
2015	28,689 (Estimate)	0.17%
2014	28,745 (Estimate)	-0.98%
2013	28,850 (Estimate)	1.01%
2012	28,674 (Estimate)	-1.77%
2011	28,789 (Estimate)	1.37%
2010	28,401 (Census)	N/A

Source: U.S. Census Bureau, Population Division.

Transportation. The City of Jacksonville is served by U.S. Highways 67/167, Arkansas State Highways 161 and 294, and U.S. Interstate 440, connecting with U.S. Interstate 30 in seven (7) miles to the south and U.S. Interstate 40 in approximately three (3) miles to the southeast. The City is also served by the Union Pacific and Arkansas Midland Railroads. Several motor freight carriers provide service from Jacksonville to major cities across the United States.

The City, located approximately twelve (12) miles from Little Rock, the capitol of Arkansas, also has access to the Bill and Hillary Clinton National Airport, with major airline and freight service connections to major cities across the United States, and to the Port of Little Rock on the Arkansas River.

Government. The City operates under the Mayor/Alderman form of municipal government. The governing body of the City is a ten (10) member Council of aldermen, elected at-large by ward

representation, for staggered four (4) year terms. The Mayor is elected at-large for a four (4) year term. The present members of the City Council of the City are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Bob Johnson	Mayor	12/31/2023
Mike Dietz	Real Estate Broker	12/31/2022
Dr. James Bolden	Minister	12/31/2020
Les Collins	Retired Military	12/31/2020
Terry Sansing	Retired	12/31/2020
Reedie Ray	Retired	12/31/2022
Barbara Mashburn	Retired	12/31/2020
Michael Traylor	Industrial Manager	12/31/2022
Mary Twitty	Insurance	12/31/2020
Gary Sipes	Police Association	12/31/2022
Tara Smith	Clerical	12/31/2022

The Mayor presides at meetings of the City Council, is the Chief Executive Officer of the City government, and is entitled to a vote to affirm measures before the Council in certain circumstances, but not a veto, for legislative matters.

The City Clerk/Treasurer is elected at-large and serves a term of four (4) years. The current City Clerk/Treasurer is Susan Davitt who has held that office since January 1, 1999. The City Attorney is also elected at-large and serves four (4) year terms. The current City Attorney, Stephanie Friedman, has held that office since January 1, 2019.

Litigation. There is no material litigation pending or threatened against the City.

Education. Primary and secondary education for the City's inhabitants was formerly provided by the Pulaski County Special School District of Pulaski County, Arkansas (the "PCSSD"). On September 16, 2014, creation of the Jacksonville North Pulaski School District was approved by an overwhelming ninety-five percent (95%) of voters, to form a new school district from a portion of the PCSSD. Enrollment in the Jacksonville North Pulaski School District for the 2018-2019 school year was 3,958. The City is also served directly by public charter and private secular and religious elementary and secondary schools throughout Jacksonville and Pulaski County and by nearby colleges and universities located at the LRAFB/Jacksonville Joint Education Center ("JEC"), constructed with funds from both the City and the United States Air Force. The JEC had an enrollment in 2019 of approximately 674 civilian and military students (all campuses).

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Economy. The major employers in the City of Jacksonville are:

<u>Company</u>	<u>Business or Products</u>	<u>Number of Employees</u>
Little Rock Air Force Base	Defense	9,662
Jacksonville North Pulaski School District	Education	625
Pathfinder, Inc.	Assistive Services for the Disabled	568
Wal-Mart	Retail	300
City of Jacksonville	Municipal Government	288
Arkansas Federal Credit Union ⁽¹⁾	Banking	223
Lomanco, Inc.	Manufacturing	205
First Arkansas Bank & Trust	Banking	149
Lowes	Retail	144
Gwatney Chevrolet	Car Dealership	125

Source: City of Jacksonville, Arkansas.

⁽¹⁾ Arkansas Federal Credit Union announced it will be transitioning its headquarters to Little Rock, Arkansas in 2021.

Economic Data. For comparative purposes the economic data of the Little Rock-North Little Rock-Conway Metropolitan Statistical Area (the “Little Rock MSA”) of which Jacksonville is a part, is shown along with economic data for Pulaski County, the State of Arkansas, and, in certain instances, the United States.

Income. Recent per capita income figures for the Little Rock MSA and Pulaski County are as follows:

<u>Year</u>	<u>Little Rock MSA</u>	<u>Pulaski County</u>
2008	\$ 37,223	\$ 42,746
2009	36,631	41,809
2010	36,857	41,492
2011	38,218	43,719
2012	40,457	46,593
2013	39,648	45,080
2014	41,144	46,349
2015	42,314	47,398
2016	42,963	47,966
2017	43,901	49,129
2018	45,512	51,185

Source: University of Arkansas at Little Rock, Institute for Economic Advancement citing the Bureau of Economic Analysis, www.bea.gov, downloaded February 25, 2020.

Note: Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2014 reflect county population estimates available as of March 2019.

Note: Population estimates are updated yearly, thus the per capita estimates for each year are updated yearly.

Employment. The civilian labor force in the Little Rock MSA, the State of Arkansas, and the United States and employment have been as follows:

<u>Year</u>	<u>Civilian Labor Force</u> <u>(in thousands)</u>			<u>Number Employed</u> <u>(in thousands)</u>		
	<u>Little Rock</u>	<u>Arkansas</u>	<u>United States</u>	<u>Little Rock</u>	<u>Arkansas</u>	<u>United States</u>
2008	344	1,375	154,287	328	1,300	145,362
2009	342	1,359	154,142	319	1,252	139,877
2010	347	1,353	153,889	322	1,242	139,064
2011	350	1,363	153,617	324	1,250	139,869
2012	348	1,343	154,975	325	1,241	142,469
2013	346	1,323	155,389	324	1,227	143,929
2014	343	1,317	155,922	325	1,237	146,305
2015	347	1,331	157,130	331	1,264	148,834
2016	350	1,340	159,187	338	1,286	151,436
2017	353	1,347	160,320	342	1,297	153,337
2018	356	1,353	162,075	344	1,304	155,761
2019	359	1,363	163,539	347	1,314	157,538

Source: University of Arkansas at Little Rock, Institute for Economic Advancement citing the Bureau of Labor Statistics.

The annual average unemployment rates for the Little Rock MSA, the State of Arkansas, and the United States since 2008 are as follows:

<u>Year</u>	<u>Unemployment Rate %</u>		
	<u>Little Rock MSA</u>	<u>Arkansas</u>	<u>United States</u>
2008	4.7	5.5	5.8
2009	6.7	7.8	9.3
2010	7.2	8.2	9.6
2011	7.3	8.3	8.9
2012	6.7	7.6	8.1
2013	6.4	7.2	7.4
2014	5.4	6.0	6.2
2015	4.5	5.0	5.3
2016	3.5	4.0	4.9
2017	3.3	3.7	4.4
2018	3.3	3.6	3.9
2019	3.2	3.5	3.7

Source: University of Arkansas at Little Rock, Institute for Economic Advancement citing the Bureau of Labor Statistics.

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Commercial and Residential Construction. The following table shows the number of new residential and commercial construction projects in the City, as reflected by building permits issued:

New Residential and Commercial Construction

<u>Year</u>	<u>Number of Permits</u>
2015	68
2016	46
2017	74
2018	40
2019	57

Source: City of Jacksonville, Arkansas.

Assessed Valuation. The following table contains the assessed valuation of real, personal, and utility property within the City:

<u>Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Utility Property</u>	<u>Total</u>
2009	\$193,088,831	\$49,438,185	\$16,040,341	\$258,567,357
2010	202,266,211	49,397,720	16,140,540	267,804,471
2011	204,232,215	51,272,975	16,919,055	272,424,245
2012	202,646,506	53,595,970	17,026,315	273,268,791
2013	208,233,348	55,876,090	17,583,900	281,693,338
2014	211,849,225	58,290,985	19,517,835	289,658,045
2015	214,553,993	57,134,325	20,250,790	291,939,108
2016	218,016,627	60,054,250	17,822,980	295,893,857
2017	212,102,407	60,382,580	21,874,860	294,359,847
2018	219,119,460	59,101,010	21,670,270	299,890,740
2019	223,912,898	69,007,820	22,845,645	315,766,363

Source: Pulaski County Assessor.

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Collection of Taxes. Tax collections of ad valorem taxes levied by the City are shown in the following table:

Collection Year	Total Tax Levy	Collection of Current Year's Taxes During Current Period	Percentage of Levy Collected	Prior Years' Collections	Total Collections ⁽¹⁾	Percentage of Total Collections to Tax Levy
2015	\$1,289,033	\$1,124,222	87.21%	\$ 88,624	\$1,212,846	94.09%
2016	1,299,180	1,120,679	86.26%	83,517	1,204,196	92.69%
2017	1,316,778	1,110,770	84.36%	82,084	1,192,854	90.59%
2018	1,309,974	1,114,212	85.06%	100,976	1,215,188	92.76%
2019	1,334,609	1,171,176	87.75%	59,229	1,230,405	92.19%

Note: Property assessments are made, tax rates (millages) are established, and taxes are levied in one year for payment by the taxpayer and collection by local governments the following year. Data is not available to show the current level by year of outstanding delinquent taxes.

Source: City of Jacksonville, Arkansas (Finance Director).

⁽¹⁾ Collections from December 1 through November 30 of each year.

Higher Education. The City is located near a number of educational institutions with instruction in undergraduate, graduate, and professional fields. The following is a list of colleges and universities located within the Little Rock MSA with approximate on-campus enrollments for the 2019 fall academic semester:

Arkansas Baptist College	537
Central Baptist College (Conway)	674
Jacksonville-Little Rock Air Force Base University Center	674 ⁽¹⁾
Hendrix College (Conway)	1,120
Philander Smith College	996
University of Arkansas - Pulaski Technical College	5,531
University of Arkansas at Little Rock	9,579
University of Arkansas at Little Rock School of Law	441
University of Arkansas Medical Sciences Campus	2,727
University of Central Arkansas (Conway)	10,869
Webster University	202

Source: Arkansas Baptist College Registrar; Central Baptist College Registrar; Jacksonville-Little Rock Air Force Base University Center Education Services Officer; Hendrix College Registrar's Office; Philander Smith College Institutional Research; Pulaski Technical College Registrar's Office; University of Arkansas at Little Rock Institutional Research; University of Arkansas at Little Rock School of Law Registrar's Office; University of Arkansas for Medical Sciences Registrar's Office, University of Central Arkansas Institutional Research; and Webster University Admissions Office for campus location in Little Rock, including online enrollment.

⁽¹⁾ Includes numbers from Webster University branch located on that campus.

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Medical Facilities. Hospitals in the cities of Little Rock, North Little Rock, and Conway serve patients from throughout Arkansas and the City. Baptist Medical Center, the area's largest hospital, has an 851-bed capacity. St. Vincent Infirmary Medical Center is a 615-bed general hospital. The Arkansas Children's Hospital is a 336-bed facility that administers acute pediatric care to children to age 21. The Central Arkansas Veterans Healthcare System includes two hospitals: Eugene J. Towbin Healthcare Center in North Little Rock, which has an 356-bed capacity; and John L. McClellan Memorial Veterans Hospital, located on the campus of the University of Arkansas for Medical Sciences Medical Center, which has a 195-bed capacity. The Arkansas Heart Hospital is a 110-bed facility specializing in cardiac care. University of Arkansas for Medical Sciences Medical Center has a 450-bed capacity, and the Arkansas State Hospital is a 222-bed psychiatric hospital. Arkansas Surgical Hospital is a 49-bed surgery and general medical care hospital located in North Little Rock. Conway Regional Medical Center is a 150-bed acute care hospital serving Conway, Faulkner County, and North Pulaski County. Baptist Health Medical Center-North Little Rock has a 225-bed capacity. Baptist Health Medical Center-Conway has a 111-bed capacity. St. Vincent Medical Center/North is located in Sherwood, and is a 69-bed general care hospital.

Source: Arkansas Department of Health; Central Arkansas Veterans Healthcare System.

City Employees. As of July 9, 2020, the City employment (unaudited) was as follows:

<u>Category</u>	<u>Number of Employees</u>
911 Center	14
Animal Control	5
Community Development Block Grant	1
City Attorney	2
City Clerk	2
Code Enforcement	5
District Court	6
Engineering	5
Finance	6
Human Resources	2
Jacksonville Water Works	32
Jacksonville Wastewater Utility	30
Mayor's Office	2
Streets	14
Information Technology	3
City Garbage	2
Fire	70
Parks and Recreation	55
Police	84
Public Works	2
Sanitation	<u>15</u>
TOTAL	357

Source: City of Jacksonville, Arkansas.

Port of Little Rock. The development of the Arkansas River through the McClellan-Kerr Arkansas River Navigation System has resulted in a 448-mile navigation channel with 18 locks and dams from the Mississippi River northwest to a point 15 miles east of Tulsa, Oklahoma. The ability to provide low-cost, bulk transportation has created opportunities for industrial development in the area.

Little Rock is also the location of Foreign Trade Zone #14. The Zone is located in the Little Rock Port Industrial Park and allows imported goods to be stored or processed without payment of customs duty or posting of bond until the goods are moved out of the Zone and into normal domestic commerce.

The facility includes an Industrial Harbor which is 4,500 feet long, 320 feet wide, and 15 feet deep. The Harbor is surrounded by 312 acres of new industrial sites and provides an additional two miles of water frontage.

Source: Arkansas Port Authority, Executive Director.

Bill and Hillary Clinton National Airport. The Bill and Hillary Clinton National Airport is located within the city limits of Little Rock and is approximately fifteen (15) miles from Jacksonville. It is served by six major airlines. It has three (3) runways and twelve (12) gates (all with jetways). In 2019, 2,241,716 passengers traveled through this facility.

Source: Bill and Hillary Clinton National Airport Website: clintonairport.com – Activity Report.

Little Rock Air Force Base. The Little Rock Air Force Base (“LRAFB”) is the “Home of the C-130 Combat Airlift,” which comprises combat-focused operators and the Formal Training Unit. LRAFB has a five Major Command relationship with three wings, the 19th Airlift Wing (Air Mobility Command), the 314th Airlift Wing (Air Education and Training Command), and the 189th Airlift Wing (Air National Guard), and LRAFB hosts an airlift group from the Air Force Reserve and a squadron from the Air Combat Command (collectively “Team Little Rock”). Team Little Rock is the Nation’s center for C-130 training and warfighting capability.

In its continuing effort to be a good steward of taxpayer dollars, LRAFB has successfully partnered with other entities in an effort to maximize cost savings through projects such as the Jacksonville-Little Rock Air Force Base University Center, energy and electrical updates with Entergy Corporation, water privatization with the City of Jacksonville, and continued initiatives to provide better youth educational facilities. LRAFB’s local economic impact consists of military, federal, civilian, and other civilian employment together with construction activities and services and the local purchase of materials, equipment, and supplies for a total local economic impact of \$596.5 million. LRAFB is the 47th largest employer in the State directly employing 5,986 airmen and 1,390 civilians and creating 2,766 indirect jobs valued at an additional \$124.5 million. For over 45 years’ LRAFB has been home to the United States C-130 tactical airlift wing, which currently consists of 62 C-130 H/J aircraft.

Source: Little Rock Air Force Base 2018 Economic Impact Statement; and A Brief History of the 314th Airlift Wing, current as of January 15, 2017.

DEBT STRUCTURE

Authorized and Outstanding General Obligation Debt. The City has no outstanding General Obligation Debt.

Defaults. No general obligation or revenue securities of the City have been in default as to principal or interest payments or in any other material respect at any time.

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Overlapping Debt. Property within the City is also chargeable with a portion of the debt of the Pulaski County Special School District, shown as follows as of December 31, 2019:

	Gross Debt Less Funds Available for Retirement	Percentage Applicable to the City	Amount Chargeable to Property Within City
Jacksonville North Pulaski School District ⁽¹⁾	\$56,525,000	76%	\$42,959,000

Source: City of Jacksonville, Arkansas (Finance Director).

⁽¹⁾ The percentage of overlapping debt applicable is estimated using taxable assessed property values for the Jacksonville North Pulaski School District.

Franchise Fee Revenue Bonds. The City has issued its City of Jacksonville, Arkansas Capital Improvement and Refunding Revenue Bonds, Series 2015 dated September 1, 2015, in the original aggregate principal amount of \$8,815,000, which are not general obligations of the City but which are repayable solely from the revenues received by the City from all franchise fees collected from public utilities for the privilege of using the City's streets, rights-of-way, and other public places in the City.

Wastewater Revenue Bonds. The City has issued its City of Jacksonville, Arkansas Wastewater Refunding Revenue Bonds, Series 2016A (Federally Taxable) dated April 12, 2016 (the "Series 2016A Bonds"), in the original aggregate principal amount of \$1,865,000, which are not general obligations of the City but are repayable solely from the net revenues derived from the operation of the System. The Series 2016A Bonds, issued on a parity with the Bonds to be Refunded, with a final maturity of December 1, 2020, are expected to be defeased on the date of closing of the Bonds.

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Principal Taxpayers. The principal taxpayers within the boundaries of the City based on the 2019 real estate assessment are as follows:

Taxpayer	Type of Business	2019 Assessed Valuation	Percentage of Total Assessed Valuation
Wal-Mart Real Estate Business Trust	Retail	\$15,860,000	7.08%
Lowe's Home Center, Inc.	Retail	8,000,000	3.57%
Woodland Hills Healthcare and Rehab	Healthcare	7,627,850	3.41%
Arkansas Federal Credit Union ⁽¹⁾	Financial Institution	6,745,000	3.01%
Andmark Oakwood Apartments, LLC	Property Owner	6,453,400	2.88%
Crain Investments, LP	Car Dealership	6,149,950	2.75%
Jacksonville Housing Assoc.	Housing	4,934,650	2.20%
Gregory Place Shopping Center, LLC	Property Owner	4,856,800	2.17%
Rebsamen Medical Center, Inc.	Medical Clinic	4,525,550	2.02%
C K Partners		4,398,800	1.96%
Stonewall Homes, LLC	Apartment Complex	4,393,300	1.96%
MRP Jacksonville AR, LLC	Property Owner	4,273,600	1.91%
Courtyard Cottages of Jacksonville Ph I & II	Housing	4,006,000	1.79%
Gwatney Harold L Chevrolet Company	Car Dealership	3,712,200	1.66%
Jacksonville Housing Assoc. Ltd. P'ship	Housing	3,692,300	1.65%
TLBT, LLC	Property Owner	3,626,800	1.62%
King Court Apartments	Apartment Complex	3,586,200	1.60%
Jacksonville Towers, Inc.	Housing	3,538,400	1.58%
First Arkansas Bank & Trust	Financial Institution	3,495,050	1.56%
Louder Manufacturing Co.	Manufacturer	2,960,200	1.32%
Total		<u>\$106,836,050</u>	<u>47.70%</u>

Source: Pulaski County Assessor.

⁽¹⁾ Arkansas Federal Credit Union announced it will be transitioning its headquarters to Little Rock, Arkansas in 2021.

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THE SYSTEM

General. The Jacksonville Wastewater Utility (the “Utility”) was established in 1978 and is governed by a five (5) person Commission made up of citizens appointed by the Jacksonville City Council. The current Commission includes: Fred Belote, Chair; John Ferrell, Vice-Chair; Edward Porter, Secretary; Robert Williams, and Terry Vick, Mrs. Thea Hughes, who has been with the Utility for over thirty-two (32) years, assumed the position of General Manager in January 2000. Mrs. Hughes has a Bachelor’s degree in Management, and holds a Class III Wastewater Operator’s license.

Upon closure in March 2001 of the West Treatment Plant, the wastewater system (the “System”) now consists of only the J. Albert Johnson Regional Treatment Facility (the “Johnson Plant”). The Johnson Plant also treats wastewater from the Little Rock Air Force Base, which includes approximately 80,000 linear feet of gravity lines and about 323 manholes. Treatment and discharge operations at the Johnson Plant are authorized by federal and state regulatory agencies through NPDES Permit No. AR0041335.

The System includes approximately 179.18 miles of gravity sewer lines from 6-inch to 42-inch in size with 3,662 manholes. The earliest construction in the System dates back about sixty-five (65) years. The System also includes fourteen (14) pump stations ranging in capacity from 90 to 3,500 gallons per minute (gpm).

The origins of the decommissioned West Plant date back to the early 1940s when it was constructed to serve as a World War II ordinance works. The plant was revised in 1961 and again in 1969. The Johnson Plant is an advanced-secondary wastewater treatment plant re-designed and expanded to handle an average annual flow rate of twelve (12) million gallons per day (mgd), which is doubled from its original six (6) mgd. Under normal circumstances, the plant can be expected to discharge an effluent meeting all applicable federal and state requirements. As of the date of this report, the Johnson Plant has operated for twenty-four (24) consecutive years without a permit violation.

For several years, the Johnson Plant was under Administrative Order (AO) from the EPA to make significant repairs to the collection system to eliminate inflow/infiltration (I/I) and overflowing manholes, conduct post-rehabilitation flow monitoring, construct relief sewers if necessary based on the results of the flow monitoring, complete expansion and rehab of the Johnson Treatment Plant, close the West Plant, and divert all wastewater to the Johnson Plant. Substantial completion of the Johnson Plant rehab and closure of the West Plant occurred March 22, 2001, and the work in the collection system on Priorities 1, 2, and 3 was completed prior to the deadline of January 1, 2002. Final flow monitoring and construction of relief sewers were to be completed by April 1, 2004.

In June 2004, the EPA agreed that all requirements had been met, and closed the Administrative Order.

A Sewer System Evaluation Study (SSES) was conducted in 1995 to evaluate the ability of the Johnson Plant to accept and treat the West Plant wastewater, and to determine the need for sewerage system improvements, including supplemental treatment capacity. A second SSES was conducted in 2008 to continue focus on System rehabilitation.

The Utility continues the rehabilitation efforts, as required by the terms of EPA's Administrative Order closure. Based on post-rehab flow monitoring, these rehab efforts have seen significant success in reducing the amount of I/I into the system. Post flow monitoring have confirmed I/I reduction of twenty percent (20%) to forty percent (40%) system-wide, and as much as sixty percent (60%) in a specific subdivision.

The Utility's personnel are heavily involved in the rehab work, but continue to make customer service the main focus. The Utility responds to calls seven (7) days per week, twenty-four (24) hours per day, including holidays. Customers are encouraged to call the Utility first, with any sewer problem, at any time. Utility crews will respond to the call, and if determined to be a city main line blockage or problem, will clear the problem without any supplementary cost to the customer. Customers are also encouraged to "Can the Grease" to keep grease blockages out of the collection system, and to "Shut the Lid on Wipes" to keep nondispersible items from damaging pumps and clogging pipes.

Management. The Utility is governed by the Jacksonville Sewer Commission (the "Commission") which is comprised of five (5) residents of the City who are appointed by the City Council. The members serve staggered terms of five (5) years each and may be reappointed to the Commission. The following are the names, occupations, and years their terms expire of the persons comprising the Commission:

Name	Occupation	Year Term Expires (April 20)
Fred Belote, Chairman	Retired	2025
John Ferrell, Vice Chairman	Retired	2021
Robert Williams	Retired	2022
Eddie Porter, Secretary	Contract Specialist, Arkansas National Guard	2023
Terry Vick	SVP/Chief Lending Officer, Arkansas Federal Credit Union	2024

Key Employees. The Utility is operated by thirty (30) persons full time. The following are the names and ages of key management of the Utility and how long each has served in such capacity:

Name	Position	Age	Length Served (years)
Thea Hughes	General Manager	59	32
Mike Overstreet	Operations Manager	53	21
Jay Summers	Collection Systems Manager	54	31
Paul Richards	Construction/Engineering Manager	37	14
Catherine Reed	Office Manager	60	19

Users. As of December 2019, there were approximately 9,674 sewer users, of which 164 were located outside the City limits. The average number of sewer users by category for each of the past five (5) years is as follows:

Year	Residential	Commercial	Total
2015	8,205	783	8,988
2016	8,750	711	9,461
2017	8,633	742	9,375
2018	8,743	734	9,477
2019	8,915	716	9,674

Only two (2) users of the System accounted for more than five percent (5%) of gross revenues of the System. The following are the largest users of the System:

User	2019 Revenue	Average Monthly Revenue	Percent of Total Revenue
Little Rock Air Force Base	\$584,388	\$46,199	11.0%
Waste Management (dba Two Pine Landfill) ⁽¹⁾	261,770	21,814	5.25%
Mid-South Properties LLC	48,927	4,077	0.98%
Allegiance Hospital NLR	44,658	3,721	0.89%
Lakeside Estates LLC	42,952	3,579	0.86%
WB Apartments LLC	41,864	3,489	0.84%
Jacksonville/North Pulaski School District ⁽²⁾	37,349	3,112	0.75%
Tri 5 Jacksonville LLP	36,107	3,009	0.72%

⁽¹⁾ Waste Management and the Utility are currently in negotiations regarding Waste Management providing for capital improvements to the System specific to their needs as a customer. In the event this occurs, it is anticipated monthly charges would no longer be collected as revenues from Waste Management due to the value of their capital contribution to the System.

⁽²⁾ This amount includes total of all schools in the Jacksonville/North Pulaski School District.

Litigation. There is no material litigation pending or threatened against the Utility.

Rates. The sewer charge is based on the monthly water consumption of the customer, based on consumption records of the Jacksonville Water Department or by other appropriate means if all or a portion of the customer's water is obtained from a source other than the Water Department. For residential customers, the sewer charge each month will be based on the average monthly consumption billed for the months of October, November, December, January, February, and March (Winter Month Period). Unestablished customers without at least three (3) months of Winter Month Periods will be calculated after the next year Winter Month Period.

In the case of water used for irrigation or lawn sprinkling purposes, the customer shall have an additional service meter installed to deliver the water in such a way that the water is billed separately without a sewer charge being computed.

Set forth below are the monthly rates for the System which became effective on January 1, 2014:

\$16.39 first 2000 gallons, then \$5.74 per 1000 gallons thereafter inside city
 \$24.59 first 2000 gallons, then \$8.61 per 1000 gallons thereafter outside city

THE AUTHORIZING ORDINANCE

The Bonds are being issued and secured pursuant to the Authorizing Ordinance, to which reference may be had in its entirety for a detailed statement of its provisions, the description set forth below being a summary of certain provisions. The City will covenant as set forth below in the Authorizing Ordinance.

Rates and General Covenants to Operate. The rates charged for services of the System heretofore fixed by ordinances of the City and the conditions, rights, and obligations pertaining thereto, as set out in those ordinances, are ratified, confirmed, and continued. None of the facilities or services afforded by the System shall be furnished without a charge being made therefor. In the event that the City or a department, agency, or instrumentality thereof shall avail itself of the facilities and services afforded by the System, the reasonable value of the service or facilities so afforded shall be charged against the City or such department, agency, or instrumentality and shall be paid for as the charges accrue. The revenues so received shall be deemed to be System Revenues derived from the operation of the System and shall be used and accounted for in the same manner as the other System Revenues derived from the operation of the System. "System Revenues" being defined as gross revenues of the System.

The City covenants that the rates established will produce System Revenues at least sufficient to pay principal of and interest on all outstanding bonds and other debt obligations to which System Revenues are pledged ("System Bonds"), maintain Debt Service Reserve Fund at the Required Levels, provide the amount required to be set aside for the Depreciation Fund (described below), and pay the expenses of operation and maintenance of the System, including all expense items properly attributable to operation and maintenance under generally accepted accounting principles applicable to municipal wastewater facilities (other than depreciation, interest, and amortization of deferred bond discount expenses). The City further covenants that the rates shall, if and when necessary from time to time, be increased in such manner as will produce System Revenues at least sufficient to comply with the previous sentence.

The City covenants that the rates shall never be reduced while any of the Bonds are outstanding unless there is obtained from an independent certified public accountant not in the regular employ of the City ("Accountant") a certificate that the Net Revenues of the System ("Net Revenues" being defined as gross revenues of the System less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System under generally accepted accounting principles applicable to municipal sewer facilities other than depreciation, interest, and amortization of deferred bond discount expenses) ("Pledged Revenues"), with the reduced rates, will always leave a balance equal to the amount required to be set aside for the Depreciation Fund (described below), and leave a balance equal to at least one hundred twenty-five percent (125%) of the average annual principal and interest requirements on all System Bonds. The City further covenants that the rates shall, if and when necessary from time to time, be increased in such manner as will produce System Revenues at least sufficient to pay the principal and interest on all System Bonds when due, to pay the operation, repair, and maintenance expenses of the System, and to deposit the amounts required to be paid into the Depreciation Fund and the Debt Service Reserve Funds in accordance with the Authorizing Ordinance.

The System shall be continuously operated as a revenue producing undertaking, and all moneys received from its operation shall be deposited in such depository or depositories for the City as may be lawfully designated from time to time by the Commission, subject, however, to the giving of security as now or as hereafter may be required by law, and provided that such depositories are located in the City, have a capital and surplus of \$15,000,000, and hold membership in the Federal Deposit Insurance Corporation ("FDIC").

Funds and Disposition of Revenues.

(a) All revenues derived from the operation of the System shall be paid into a special fund designated "Wastewater Revenue Fund" (the "Revenue Fund"). Moneys in the Revenue Fund shall be applied to the payment of the reasonable and necessary expenses of operation, repair, and maintenance of the System, to the payment of the principal of and interest on the System Bonds, to the providing of the Depreciation Fund, to the maintenance of a Debt Service Reserve Fund, and otherwise as described in the Authorizing Ordinance.

(b) There shall be first paid from the Revenue Fund into a fund designated “Wastewater Operation and Maintenance Fund” (the “Operation and Maintenance Fund”), on or before the tenth (10th) day of each month, an amount sufficient to pay the reasonable and necessary monthly expenses of operation, repair, and maintenance of the System for such month and from which disbursements shall be made only for those purposes. Fixed annual charges such as insurance premiums and the cost of major repair and maintenance expenses may be computed and set up on an annual basis, and one-twelfth (1/12) of the amount thereof may be paid into the Operation and Maintenance Fund each month.

If in any month for any reason there shall be a failure to transfer and pay the required amount into the Operation and Maintenance Fund, the amount of any deficiency shall be added to the amount otherwise required to be transferred and paid therein during the next succeeding month. If in any fiscal year a surplus shall be accumulated in the Operation and Maintenance Fund over and above the amount which shall be necessary to defray the reasonable and necessary costs of operation, repair, and maintenance of the System during the remainder of the then current fiscal year and the next ensuing fiscal year, such surplus may be transferred and deposited in the Revenue Fund.

(c) There shall next be paid from the Revenue Fund into a special fund designated “Series 2020 Wastewater Revenue Bond Fund” (the “Bond Fund”) on or before the fifteenth (15th) day of each month, commencing December 15, 2020, until all outstanding Bonds, with interest thereon, have been paid in full or provision made for such payment a sum equal to one-sixth (1/6) of the next installment of interest due on the Bonds and one-twelfth (1/12) of the next installment of principal due on the Bonds, except for the payments to be made from the date of delivery of the Bonds to the fifteenth (15th) day of the month preceding the first payment date which such monthly payments shall be made in an amount equal to the pro rata portion of the next installment of interest and principal, if any, due on the Bonds, which all such deposits are hereby pledged to secure the repayment of the Bonds.

The City shall also pay into the Bond Fund such additional sums as necessary to provide for the Trustee’s fees and expenses. The City shall realize a credit against monthly deposits into the Bond Fund from Bond proceeds deposited therein, all interest earnings on moneys in the Bond Fund and for transfers into the Bond Fund derived from earnings on the Debt Service Reserve Fund during the preceding month.

There is created, as a part of the Bond Fund, a Debt Service Reserve Fund (the “Debt Service Reserve Fund”), which shall be maintained by the City in an amount equal to the lesser of (a) fifty percent (50%) of the maximum annual principal and interest requirements on the Bonds, or (b) ten percent (10%) of the proceeds of the Bonds (excluding accrued interest but including Underwriter’s discount) (the “Required Level”) or, in lieu thereof, a Surety Bond equal to the Required Level. Should the Debt Service Reserve Fund become impaired or be reduced below the Required Level, the City shall make additional monthly payments from the Revenue Fund until the impairment or reduction is corrected within a twelve (12) month period.

If for any reason the City should fail at any time to make any of the required payments into the Bond Fund, any sums then held in the Debt Service Reserve Fund shall be used to the extent necessary for the payment of principal of or interest on the Bonds.

If System Revenues are insufficient to make the required payment on the first (1st) business day of the following month into the Bond Fund, then the amount of any such deficiency in the payment made shall be added to the amount otherwise required to be paid into the Bond Fund on the first (1st) business day of the next month.

There shall be withdrawn from the Bond Fund, or the Debt Service Reserve Fund to be paid into the Bond Fund, and deposited with the Trustee at least one (1) business day before the due date for the principal

and/or interest on any Bond, at maturity or redemption prior to maturity, an amount equal to the amount of such Bond or interest due thereon for the sole purpose of paying the same, together with the Trustee's fee.

(d) There shall next be paid from the Revenue Fund into a fund designated "Wastewater Depreciation Fund" (the "Depreciation Fund"), on or before the fifteenth (15th) day of each month while any of the Bonds are outstanding, three percent (3%) of the System Revenues for the preceding month which remain after the required payment into the Operation and Maintenance Fund and the Bond Fund. The moneys in the Depreciation Fund shall be used solely for the purpose of paying the cost of replacements made necessary by the depreciation of the System.

If in any fiscal year a surplus shall be accumulated in the Depreciation Fund over and above the amount which shall be necessary to defray the cost of the probable replacements during the then current fiscal year and next ensuing fiscal year, such surplus may be transferred and deposited into the Revenue Fund.

(e) Any surplus in the Revenue Fund, after making all disbursements and providing for all funds described above, may be used, at the option of the City, for any lawful purpose related to the System authorized by the Commission.

Parity Bonds. Except as set forth herein, so long as any of the Bonds are outstanding, the City shall not issue or attempt to issue any bonds claimed to be entitled to a priority of lien on System Revenues over the lien securing the Bonds.

The City reserves the right to issue additional bonds to finance or pay the cost of making any future extensions, betterments, or improvements to the System, or to refund bonds issued for such purposes, but the City shall not authorize or issue any such additional bonds ranking on a parity with the Bonds unless and until there has been procured and filed with the City Clerk/Treasurer and the Trustee a statement by an Accountant reciting the opinion, based upon necessary investigation, that either (i) Pledged Revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds were not less than one hundred twenty-five percent (125%) of the average annual principal and interest requirements on all the then outstanding System Bonds and the additional parity bonds then proposed to be issued, or (ii) Pledged Revenues of the System for the ensuing fiscal year, including any increase in revenues attributable to the proposed extensions, betterments, and improvements as reflected by the written opinion of a duly qualified consulting engineer not in the regular employ of the City and including any additional revenues expected to be received as a result of a rate increase effective during such year or the prior fiscal year, shall be equal to not less than one hundred twenty-five percent (125%) of the average annual principal and interest requirements on all the then outstanding System Bonds and the additional parity bonds then proposed to be issued.

For the purposes of the computation required by (i) above, additional amounts may be added to the Pledged Revenues of the completed fiscal year immediately preceding the issuance of the additional bonds, as follows: if, prior to the issuance of the additional bonds, and subsequent to the first (1st) day of such preceding fiscal year, the City shall have increased its rates or charges imposed for services of the System there may be added to the Pledged Revenues of such fiscal year the additional Pledged Revenues which would have been received from the operations of the System during such fiscal year had such increase been in effect throughout such fiscal year.

Notwithstanding satisfaction of the other conditions to the issuance of additional bonds, no issuance may occur if a default or breach (or any event which, once all notice or grace periods have passed, would constitute a breach) exists unless such breach shall be cured upon such issuance.

Accounts and Records. The City will keep proper books of accounts and records (separate from all other accounts and records) in which complete and correct entries shall be made of all transactions relating to the operation of the System, and such books shall be available for inspection by the Trustee and registered owner of any of the Bonds at reasonable times and under reasonable circumstances. The City agrees to have these records audited by an Accountant at least once each year, and a copy of the audit shall be delivered to the Trustee and made available to registered owners requesting the same in writing. In the event that the City fails or refuses to make the audit, the Trustee, or any registered owner of the Bonds may have the audit made, and the cost thereof shall be charged against the Operation and Maintenance Fund.

Maintenance; Insurance. The City covenants and agrees that it will maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. While any of the Bonds are outstanding, the City agrees that it will insure and at all times keep insured, in the amount of the full insurable value thereof, in a responsible insurance company or companies selected by the Commission and authorized and qualified under the laws of the State to assume the risk thereof, all above-ground structures of the System to the extent that such structures would be covered by insurance by private companies engaged in similar types of business, against loss or damage thereto from fire, lightning, tornados, winds, riot, strike, civil commotion, malicious damage, explosion, and against any other loss or damage from any other causes customarily insured against by private companies engaged in similar types of business. The insurance policies are to carry a clause making them payable to the Commission and the Trustee, as their interests may appear, and satisfactory evidence of said insurance shall be filed with the Trustee. In the event of loss, the proceeds of such insurance shall be applied solely toward the reconstruction, replacement, or repair of the System, and in such event the City will, with reasonable promptness, cause to be commenced and completed the reconstruction, replacement, and repair work. If such proceeds are more than sufficient for such purposes, the balance remaining shall be deposited to the credit of the Revenue Fund, and if such proceeds shall be insufficient for such purposes the deficiency shall be supplied first from moneys in the Depreciation Fund and second from moneys in the Operation and Maintenance Fund and third from surplus moneys in the Revenue Fund. Nothing shall be construed as requiring the City to expend any moneys for operation and maintenance of the System or for premiums on its insurance which are derived from sources other than the operation of the System, but nothing shall be construed as preventing the City from doing so.

Defeasance. Any Bond shall be deemed to be paid within the meaning of the Authorizing Ordinance when payment of the principal of and interest on such Bond (whether at maturity or upon redemption, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (1) cash fully insured by the FDIC and/or fully collateralized sufficient to make such payment and/or (2) direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America ("Government Securities"), maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys to make such payment, and all necessary and proper fees, compensation, and expenses of the Trustee shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

On the payment of any Bonds within the meaning of the Authorizing Ordinance, the Trustee shall hold in trust, for the benefit of the owners of such Bonds, all such moneys and/or Government Securities.

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if the Trustee has been paid its fees and expenses, the Trustee shall take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and cancelled, and (ii) all moneys held by it pursuant to the Authorizing Ordinance and which are not required for the payment of such Bonds to be paid over or delivered to or at the direction of the City.

Default and Remedies. If there be any default in the payment of the principal of or interest on any of the Bonds, or if the City defaults in any Bond Fund requirement or in the performance of any of the other covenants contained in the Authorizing Ordinance, the Trustee may, and upon the written request of the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall, by proper suit, compel the performance of the duties of the officials of the City under the laws of Arkansas. And in the case of a default in the payment of the principal of and interest on any of the Bonds, the Trustee may, and upon the written request of registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall, apply in a proper action to a court of competent jurisdiction for the appointment of a receiver to administer the System on behalf of the City and the registered owners of the Bonds with power to charge and collect (or by mandatory injunction or otherwise to cause to be charged and collected) rates sufficient to provide for the payment of the expenses of operation, maintenance, and repair and to pay any Bonds and interest outstanding and to apply the System Revenues in conformity with the laws of Arkansas and with the Authorizing Ordinance. When all defaults in principal and interest payments have been cured, the custody and operation of the System shall revert to the City.

No registered owner of any of the outstanding Bonds shall have any right to institute any suit, action, mandamus, or other proceeding in equity or at law for the protection or enforcement of any power or right unless such owner previously shall have given to the Trustee written notice of the default on account of which such suit, action, or proceeding is to be taken, and unless the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding shall have made written request of the Trustee after the right to exercise such power or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted to the Trustee, or to institute such action, suit, or proceeding in its name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request, and offer of indemnity are, at the option of the Trustee, conditions precedent to the execution of any remedy. No one or more registered owners of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb, or prejudice the security of the Authorizing Ordinance, or to enforce any right thereunder except in the manner described in the Authorizing Ordinance. All proceedings at law or in equity shall be instituted, had, and maintained in the manner herein described and for the benefit of all registered owners of the outstanding Bonds.

No remedy conferred upon or reserved to the Trustee or to the registered owners of the Bonds is intended to be exclusive of any other remedy or remedies, and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Authorizing Ordinance or by any law or by the Constitution of the State of Arkansas.

The Trustee may, and upon the written request of the registered owners of not less than a majority in principal amount of the Bonds then outstanding shall, waive any default which shall have been remedied before the entry of final judgment or decree in any suit, action, or proceeding instituted under the provisions of the Authorizing Ordinance or before the completion of the enforcement of any other remedy, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the City only after payment of past due and current debt service on the bonds and amounts required to restore the Debt Service Reserve Funds to the Required Level.

Amendment of Authorizing Ordinance. The terms of the Authorizing Ordinance constitute a contract between the City and the owners of the Bonds and no variation or change in the undertaking set forth in the

Authorizing Ordinance shall be made while any of the Bonds are outstanding, except as hereinafter set forth below.

The Trustee may consent to any variation or change in the Authorizing Ordinance without the consent of the owners of the outstanding Bonds (a) in connection with the issuance of additional parity bonds under the Authorizing Ordinance; (b) in order to cure any ambiguity, defect, or omission therein or to correct or supplement any defective or inconsistent provisions contained therein as the City may deem necessary or desirable and not inconsistent therewith; or (c) in order to make any other variation or change which the Trustee determines shall not adversely affect the interests of the owners of the Bonds.

The owners of not less than seventy-five percent (75%) in aggregate principal amount of the Bonds then outstanding shall have the right, from time to time, anything contained in the Authorizing Ordinance to the contrary notwithstanding, to consent to and approve the adoption by the City of such ordinance supplemental thereto as shall be necessary or desirable for the purpose of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Authorizing Ordinance or in any supplemental ordinance; provided, however, that nothing contained in the Authorizing Ordinance shall permit or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) the creation of a lien or pledge superior to the lien and pledge created by the Authorizing Ordinance, or (d) a privilege or priority of any bond or bonds over any other bond or bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental ordinance.

The Trustee. The Trustee shall only be responsible for the exercise of good faith and reasonable prudence in the execution of its trust. The Trustee shall not be required to take any action as Trustee unless it shall have been requested to do so in writing by the registered owners of not less than ten percent (10%) in principal amount of the Bonds then outstanding and shall have been offered reasonable security and indemnity against the costs, expenses, and liabilities to be incurred therein or thereby. The Trustee may resign at any time by giving sixty (60) days' notice in writing to the City Clerk/Treasurer, the registered owners of the Bonds, and the City or the majority in value of the registered owners of the outstanding Bonds, at any time, with or without cause, may remove the Trustee. In the event of a vacancy in the office of Trustee, either by resignation or by removal, the City shall forthwith designate a new Trustee by a written instrument filed in the office of the City Clerk/Treasurer. Every successor Trustee shall be a trust company or bank in good standing, duly authorized to exercise trust powers, and subject to examination by federal or state authority. The original Trustee and any successor Trustee shall file a written acceptance and agreement to execute the trusts imposed upon it or them but only upon the terms and conditions set forth in the Authorizing Ordinance and subject to the provisions of the Authorizing Ordinance, to all of which the respective registered owners of the Bonds agree. Any successor Trustee shall have all the powers granted to the original Trustee.

Investments. (a) Moneys held for the credit of all funds created by the Authorizing Ordinance may be invested and reinvested in Permitted Investments.

(b) Obligations purchased as an investment of any fund or account shall be deemed at all times a part of such fund. Any profit or loss realized on investments of moneys in any fund shall be charged to said fund.

(c) The Trustee shall so invest and reinvest pursuant to the direction of the City and in the Trustee's discretion in the absence of any direct instructions from the City.

(d) "Permitted Investments" are defined to mean:

- (1) Direct or fully guaranteed Government Securities;
- (2) Obligations guaranteed as a payment of principal and interest by the United States of America (“Government Guaranteed Securities”);
- (3) Cash (insured at all times by the FDIC or otherwise collateralized with obligations described in clauses (1) or (2) above);
- (4) Time deposits or certificates of deposit of banks, including the Trustee, which are insured by the FDIC, or if in excess of insurance coverage, collateralized by Government Securities, Government Guaranteed Securities, or other securities authorized by State law to secure public funds.

Permitted investments shall mature, or shall be subject to redemption by the holder thereof, at the option of such holder, not later than (A) the payment date for interest or principal and interest in the case of the Bond Fund and (B) five (5) years for the Debt Service Reserve Fund. The Trustee shall follow any investment instructions of the City which are not inconsistent with the foregoing provisions of this paragraph.

(e) Moneys held for the credit of any other fund shall be continuously invested and reinvested in Permitted Investments or other investments as may, from time to time, be permitted by law, which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than the date or dates when the moneys held for the credit of the particular fund will be required for purposes intended.

CONTINUING DISCLOSURE

During the past five (5) years, the City has been obligated to comply with continuing disclosure agreements involving (6) bond issues, two of which were redeemed in full in 2016 and one of which was redeemed in full in 2020. Such agreements require the City to file annual reports with the trustees, as dissemination agents. The dissemination agents are required to file the annual reports with the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system (“EMMA”) within various time periods set by those agreements. While the City has not made any determination as to materiality, the following summarizes a non-exhaustive discussion of the City’s compliance with its continuing disclosure obligations over the past five (5) years.

As part of its annual report, the City was obligated to file annual audited financial statements. For two (2) of the bond issues, the City was required to file the audit of the general purpose financial statements of the City as part of its annual report. The City was required to file audited financial statements of the Utility for four (4) of its bond issues.

The City’s 2006 and 2015 bonds require the filing of an annual audit of the City. For the 2006 bonds, such filing was 150 days late for the December 31, 2015, audit and 196 days late for the December 31, 2017, audit. The December 31, 2016, and December 31, 2018, audits were timely filed for the 2006 bonds. For the 2015 bonds, the December 31, 2015, December 31, 2016, and December 31, 2017 audits were filed 12 days, 9 days, and 226 days late, respectively. The December 31, 2018, audit was timely filed for the 2015 bonds. The City’s 2019 audit is currently not available. For the bond issues that required the City to file the audit of the Utility’s financial statements, such audits were filed in a timely manner.

Each of the continuing disclosure agreements requires that certain supplemental financial and operating

data be provided as part of the annual report. The supplemental data to be provided varies depending on the type of bond issue and how each is secured. In the past five (5) years, all supplemental financial and operating data for the Utility bond issues were filed on EMMA in a timely manner.

For the City's 2006 bonds, none of the supplemental financial and operating data was timely filed by the City. These bonds were redeemed in full on May 1, 2020.

For the City's 2015 bonds, the annual reports and supplemental financial information were timely filed, but did not include a debt service coverage calculation chart as required.

The continuing disclosure agreements also obligated the City to file a notice of the occurrence of any significant event listed in Securities and Exchange Commission, Rule 15c2-12(b)(5). Included in the list of significant events are bond calls. The City failed to file notices of partial redemption of the City's \$2,500,000 City of Jacksonville, Arkansas Library Construction and Improvement Bonds, Series 2006. Notice of full redemption of these bonds in 2020 was properly filed.

The City has undertaken steps to ensure that all required audited financial statements, supplemental data, and significant event notices are filed in a timely manner in the future.

Set forth below is a summary of certain portions of the Continuing Disclosure Agreement. This summary does not purport to be comprehensive and reference is made to the full text of the Continuing Disclosure Agreement for a complete description of the provisions.

Purpose of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement is executed and delivered by the City, the Utility, and the Trustee, as Dissemination Agent, for the benefit of the Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Securities and Exchange Commission, Rule 15c2-12(b)(5).

Definitions. In addition to the definitions set forth in this Official Statement, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City or the Utility pursuant to, and as described in, the Continuing Disclosure Agreement.

"Beneficial Owner" of a Bond shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries).

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee and the City a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access System as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

"Listed Events" shall mean any of the events listed hereunder.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Provision of Annual Report. (a) The City or the Utility shall, or cause the Dissemination Agent to, not later than June 30th following the end of the Utility's fiscal year (presently December 31st), commencing with the report after the end of the 2020 fiscal year, provide to the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the Utility may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City or the Utility. If the Utility's fiscal year changes, the City shall give notice of such change in the manner as for a Listed Event.

(b) No later than fifteen (15) days prior to the date specified in subsection (a) for providing the Annual Report to MSRB, the City or the Utility shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City and the Utility to determine if the City and the Utility are in compliance with subsection (a) above if the Dissemination Agent has not received a copy of the Annual Report and proof of filing with the MSRB by the date specified in the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report (containing the information set forth in Content of Annual Reports, below) has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall file a notice with the MSRB and provide a copy to the Trustee (if the Trustee is not the Dissemination Agent).

(d) The Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing to whom it was provided and provide a copy of that report to the Trustee (if the Trustee is not the Dissemination Agent).

Content of Annual Reports. The Utility's Annual Report shall contain or incorporate by reference the following:

1. Information of the type set forth in this Official Statement under the caption **THE SYSTEM, Users** with respect to (i) the number of sewer users for the fiscal year then ended and the four previous fiscal years; and (ii) a statement as to which users, if any, accounted for five percent (5%) or more of System Revenues for the preceding fiscal year.

2. The annual audit of the Utility, which (i) need not be audited in accordance with auditing standards generally accepted in the United States of America, (ii) shall be prepared using accounting principles prescribed by Arkansas Code Annotated Section 10-4-412, as it may be amended from time to time, or any successor statute, and (iii) shall be audited in accordance with, and as required by, State law (the "Financial Statements").

Any or all of the items above may be incorporated by reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the

MSRB's website or have been filed with the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City or the Utility shall clearly identify each such other document so incorporated by reference.

Reporting of Listed Events. (a) This caption describes the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.
7. Modification to rights of security holders, if material.
8. Bond calls (excluding mandatory sinking fund redemptions), if material.
9. Defeasances and tender offers.
10. Release, substitution, or sale of property securing repayment of the securities, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership, or similar event of the City.
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
15. Incurrence of a "financial obligation" (as defined below) of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material.
16. Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

(b) “Financial Obligation” is defined as a (i) debt obligation; (ii) derivative instrument entered into connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation does not include municipal securities as to which a final official statement has been filed with the MSRB pursuant to the Rule.

(c) After the occurrence of a Listed Event (excluding a Listed Event described in (a)(8) above), the City shall, or shall cause the Utility to, promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence.

(d) After the occurrence of any of the Listed Events (excluding a Listed Event described in (a)(8) above), the City shall file (or shall cause the Dissemination Agent or the Utility to file), in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any other similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent), the City, and the Utility. Each notice of the occurrence of a Listed Event shall be captioned “Notice of Listed Event” and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. In the event of a Listed Event described in subsection (a)(8), the City, the Utility, or the Dissemination Agent shall make the filing in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event.

Termination of Reporting Obligation. The City’s or the Utility’s obligations under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption, or payment in full of all the Bonds.

Dissemination Agent. The City or the Utility may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City or the Utility pursuant to the Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be Bank OZK.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, the City, the Utility, and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provisions of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the requirements for providing an Annual Report, to the contents of the Annual Report, or the reporting of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements; change in law; change in the identity, nature, or status of an obligated person with respect to the Bonds; or change in the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Beneficial Owners of the Bonds in the same manner as provided in the Authorizing Ordinance for amendments to the Authorizing Ordinance with the consent of Beneficial Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, the City or the Utility shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Report for the year in which the change is made should present a comparison in narrative form (and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information. Nothing in the Continuing Disclosure Agreement shall be deemed to prevent the City or the Utility from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If the City or the Utility chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, the City or the Utility shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Default. In the event of a failure of the City, the Utility, or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Trustee, the City, or any Beneficial Owner may (and the Trustee, at the request of the Underwriter or the Beneficial Owners of at least twenty-five percent (25%) aggregate principal amount of outstanding Bonds, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City, the Utility, or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed a default under the Authorizing Ordinance, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City, the Utility, or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties of Dissemination Agent and Right of Indemnity. The Dissemination Agent shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement; and the City and the Utility agree to indemnify and save the Dissemination Agent and its officers, directors, employees, and agents, harmless against any loss, expense, and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct.

Beneficiaries. The Continuing Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Underwriter, and the Beneficial Owners and shall create no rights in any other person or entity.

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FINANCIAL INFORMATION

Set forth in Exhibit A to this Official Statement are the audited financial statements of the Utility for the fiscal years ended December 31, 2018 and 2017, and set forth in Exhibit B to this Official Statement are the audited financial statements of the Utility for the fiscal years ended December 31, 2019 and 2018. These financial statements should be read in their entirety, together with any notes and supplemental information affixed thereto.

Audited revenues and expenses of the Utility are summarized as follows for the preceding five (5) years (fiscal years ended December 31) as well as annualized unaudited revenues and expenses based on the six (6) months ending June 30, 2020:

	Annualized 2020⁽¹⁾	2019	2018	2017	2016	2015
Operating Revenue	\$4,777,512	\$4,996,761	\$4,765,790	\$4,905,432	\$4,928,496	\$5,003,956
Operating Expenses Excluding Depreciation	(2,829,367)	(3,095,842)	(3,009,554)	(3,136,073)	(3,089,715)	(3,160,255)
Net Operating Income Before Depreciation	1,948,145	1,900,919	1,756,236	1,769,359	1,838,781	1,843,701
Depreciation	(2,090,694)	(2,049,167)	(2,072,242)	(2,091,962)	(2,075,069)	(2,049,298)
Interest and Other Non-Operating Income	221,236	212,597	128,714	69,161	32,520	19,918
Interest, Amortization and Non-Operating Expense	(526,878)	(537,710)	(550,394)	(561,548)	(846,445)	(855,001)
Net Income (Loss)	(\$448,192)	(\$473,361)	(\$737,686)	(\$814,982)	(\$1,050,213)	(\$1,040,680)

⁽¹⁾ Based on internal, unaudited annualized financial statements for the six (6) months ending June 30, 2020, with respect to the Utility.

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DEBT SERVICE COVERAGE

The following table shows the estimated Pledged Revenues available for debt service on the Bonds, the maximum amount of annual debt service, and the extent to which debt service is covered by such funds:

	Audited 2019 ⁽¹⁾	Unaudited Annualized 2020 ⁽²⁾
Operating Revenues and Interest Income ⁽¹⁾	\$5,209,358	\$4,998,748
Less Operating Expenses ⁽³⁾	<u>(\$3,095,842)</u>	<u>(\$2,829,367)</u>
Pledged Revenues Available for Debt Service	\$2,113,516	\$2,169,381
Maximum Annual Debt Service on Bonds	\$1,059,900	\$1,059,900
Debt Service Coverage	1.99X ⁽⁴⁾	2.05X ⁽⁵⁾

⁽¹⁾ Based on 2019 audited financial statements with respect to the Utility.

⁽²⁾ Based on internal, unaudited annualized financial statements for the six (6) months ending June 30, 2020, with respect to the Utility.

⁽³⁾ Total expenses before depreciation, interest, and bond amortization expenses.

⁽⁴⁾ In the event the arrangement identified in footnote 1 on page 19 of this document occurs and assuming expenses remained the same, debt service coverage would adjust to 1.75X for 2019.

⁽⁵⁾ In the event the arrangement identified in footnote 1 on page 19 of this document occurs, based on internal, unaudited annualized financial statements for the six (6) months ending June 30, 2020, with respect to the Utility and assuming expenses remained the same, debt service coverage would adjust to 1.75X for 2020.

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DEBT SERVICE REQUIREMENTS

Set forth below are the debt service requirements for the Bonds:

<u>Date</u> <u>(December 1)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	-	\$ 77,444.38	\$ 77,444.38
2021	\$ 135,000.00	296,595.50	431,595.50
2022	140,000.00	295,623.50	435,623.50
2023	580,000.00	294,545.50	874,545.50
2024	765,000.00	289,615.50	1,054,615.50
2025	775,000.00	281,736.00	1,056,736.00
2026	785,000.00	272,203.50	1,057,203.50
2027	795,000.00	260,428.50	1,055,428.50
2028	810,000.00	247,708.50	1,057,708.50
2029	825,000.00	233,533.50	1,058,533.50
2030	840,000.00	217,858.50	1,057,858.50
2031	855,000.00	201,478.50	1,056,478.50
2032	875,000.00	183,865.50	1,058,865.50
2033	895,000.00	164,878.00	1,059,878.00
2034	910,000.00	144,561.50	1,054,561.50
2035	935,000.00	122,994.50	1,057,994.50
2036 ⁽¹⁾	960,000.00	99,900.00	1,059,900.00
2037 ⁽¹⁾	985,000.00	73,980.00	1,058,980.00
2038 ⁽¹⁾	1,010,000.00	47,385.00	1,057,385.00
2039 ^{(1) (2)}	745,000.00	20,115.00	765,115.00

⁽¹⁾ Term Bond, subject to mandatory sinking fund redemption.

⁽²⁾ Final Maturity of Term Bond.

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LEGAL MATTERS

Legal Proceedings. There is no litigation pending seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the legality of the Bonds or the proceedings and authority under which the Bonds are to be issued, or questioning the right of the City to adopt the Authorizing Ordinance or to issue the Bonds.

Legal Opinions. Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving legal opinion of Wright, Lindsey & Jennings, LLP, Little Rock, Arkansas, Bond Counsel. Certain matters will be passed upon for the City and the Utility by its counsel, Stephanie Friedman.

Tax Treatment-Opinion of Bond Counsel. In the opinion of Bond Counsel, under existing law, the interest on the Bonds is includable in gross income for federal income tax purposes and the Bonds are exempt from property taxation in the State.

State Taxes. Bond Counsel is of the opinion that, under existing law, the Bonds and interest thereon are exempt from all Arkansas state, county, and municipal taxes.

It is not an event of default on the Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

MISCELLANEOUS

Enforceability of Remedies. Rights of the registered owners of the Bonds and the enforceability of the remedies available under the Authorizing Ordinance may depend on judicial action and may be subject to the valid exercise of the constitutional powers of the United States of America and of the sovereign police powers of the State of Arkansas or other governmental units having jurisdiction, and to the application of federal bankruptcy laws or other debtor relief or moratorium laws in general. Therefore, enforcement of those remedies may be delayed or limited, or the remedies may be modified or unavailable, subject to the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel expresses no opinion as to any effect upon any right, title, interest, or relationship created by or arising under the Authorizing Ordinance resulting from the application of state or federal bankruptcy, insolvency, reorganization, moratorium, or similar debtor relief laws affecting creditors' rights which are presently or may from time to time be in effect.

Underwriting. Under a Bond Purchase Agreement (the "Agreement") entered into by and between the City, as Issuer; the Utility; and Stephens Inc., as underwriter (the "Underwriter"), the Bonds are being purchased at a price of \$14,488,420 (principal amount of \$14,620,000 and less Underwriter's discount of \$131,580). The Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the Agreement, including the absence of pending or threatened litigation questioning the validity of the Bonds or any proceedings in connection with the issuance thereof, and the absence of material adverse changes in the financial or business condition of the City.

The Underwriter intends to offer the Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the

Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering price.

The City has agreed to indemnify the Underwriter against certain civil liabilities in connection with the offering and sale of the Bonds, including certain liabilities under federal securities laws.

Rating. The Bonds are rated “A+ Stable Outlook” by S&P Global Ratings. The rating reflects only the view of the rating agency. Any explanation of the significance of the rating may be obtained only from the rating agency. The City and the Utility furnished to the rating agency certain information and materials, some of which have been included in this Preliminary Official Statement, relating to the Bonds, the City, and the Utility. Generally, rating agencies base their ratings on such information and materials and investigation, studies, and assumptions by the rating agencies. There can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by a rating agency if in its judgment circumstances so warrant.

Information in the Official Statement. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds.

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed. To the best of the knowledge of the undersigned the Official Statement does not include any untrue statement of a material fact, nor does it omit the statement of any material fact required to be stated therein, as necessary to make the statements therein: in light of the circumstances under which they were made, not misleading.

Infectious Disease Outbreak – COVID-19. A novel strain of the coronavirus (which leads to the disease known as “COVID-19”), has recently spread throughout the world and has been characterized by the World Health Organization as a pandemic. In March of 2020 President Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. The Governor of the State of Arkansas (the “State”) signed an Executive Order declaring a state of emergency in the State in response to the COVID-19 pandemic, and implemented various measures to reduce the spread of the virus. As such, businesses and individuals are altering their behaviors in a manner that is expected to have negative impacts on regional, state, and local economies. Additionally, measures taken to prevent or reduce the spread of COVID-19, uncertainty about the duration of the pandemic, and the continued economic impact have caused volatility and significant declines in the financial markets in the United States. The United States Congress passed relief and stimulus legislation intended to address the financial impact of the pandemic on the United States economy and financial markets, however, it is too early to forecast the legislations impact on the economy. If market declines and/or volatility continues, the ability to sell or trade securities in the financial markets could be materially constrained.

The extent to which COVID-19 impacts the Utility’s operations and its financial condition will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of COVID-19, and the actions to contain COVID-19 or treat its impact, among others. In particular, the continued spread of COVID-19 in the United States and the State could have a material adverse effect on the Utility’s operations and its financial condition. Currently, many businesses in the State and in the service area of the Utility in Pulaski County, Arkansas have closed voluntarily or are operating on a limited basis in response to COVID-19. Such closures or limited operation could lead to a reduction in demand in the services provided by the Utility, a reduction in revenue received by the Utility, and an increase in delinquency of customers paying

their bills to the Utility. Such occurrences could have a material adverse effect on the financial condition of the Utility and could impact the Utility's ability to timely pay its obligations, including the Bonds. At this time, the extent to which the financial condition of the Utility is impacted by the COVID-19 pandemic is uncertain and cannot be predicted with confidence.

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The execution and delivery of this Official Statement on behalf of the City has been authorized by the City.

CITY OF JACKSONVILLE, ARKANSAS

By: /s/Bob Johnson, Mayor
Bob Johnson, Mayor

Dated: As of the Cover Page hereof.

EXHIBIT “A”

JACKSONVILLE WASTEWATER UTILITY

Independent Auditor’s Report

Financial Statements and Supplementary Schedules

December 31, 2018 and 2017

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2018 and 2017

**JACKSONVILLE WASTEWATER UTILITY
JACKSONVILLE, ARKANSAS
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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 of 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 Utility'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, 2018 and 2017, 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 March 29, 2019 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
March 29, 2019

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 and 2017

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, 2018. 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 195 miles of gravity and force main sewer lines from 6-inch to 42-inch in size with over 3,500 manholes. The earliest construction in the system dates back about 60 years. The system also includes 13 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-three (23) 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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 and 2017

FINANCIAL ANALYSIS AND RESULTS OF OPERATIONS

A condensed summary of JWU's net position as of December 31, 2018, 2017, and 2016 is provided below:

TABLE 1
SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION
DECEMBER 31, 2018, 2017, AND 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets and Deferred Outflows of Resources:			
Total current assets	\$ 9,106,217	\$ 8,753,255	\$ 8,241,490
Total restricted noncurrent assets	576,813	576,562	577,235
Net capital assets	31,550,672	32,995,914	34,249,112
Other assets			
Deferred Outflows of Resources	<u>432,124</u>	<u>653,844</u>	<u>704,674</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 41,665,826</u></u>	<u><u>\$ 42,979,575</u></u>	<u><u>\$ 43,772,511</u></u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Total current liabilities	\$ 634,876	\$ 607,999	\$ 651,186
Total noncurrent liabilities	<u>16,671,018</u>	<u>17,403,433</u>	<u>17,716,005</u>
Total Liabilities	<u>17,305,894</u>	<u>18,011,432</u>	<u>18,367,193</u>
Deferred Inflows of Resources	<u>246,571</u>	<u>117,095</u>	<u>106,321</u>
Net Position:			
Invested in capital assets	16,418,914	17,395,809	18,190,681
Restricted	689,332	674,625	668,156
Unrestricted	<u>7,005,115</u>	<u>6,780,613</u>	<u>6,440,160</u>
Total Net Position	<u>24,113,361</u>	<u>24,851,047</u>	<u>25,298,997</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>\$ 41,665,826</u></u>	<u><u>\$42,979,575</u></u>	<u><u>\$ 43,772,511</u></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.

JACKSONVILLE WASTEWATER UTILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 2017 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 will provide a \$2,423,000 reduction in debt service payments over the next 22 years.

Total assets exceeded liabilities at year-end by \$24,113,361 (net position). Of this amount, \$7,005,115 (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 \$1,313,749 from 2017. Total assets amounted to \$41,233,702 consisting of capital assets in the amount of \$31,550,672 and other assets in the amount of \$9,683,030. Cash (both restricted and unrestricted) in the amount of \$8,450,436 is included in the other asset amount.

Total liabilities amounted to \$17,305,894, consisting of long-term liabilities in the amount of \$16,671,018 and other liabilities in the amount of \$634,876. The Utility's total liabilities include revenue bonds payable (net of unamortized discount) in the amount of \$15,086,200, closure/post-closure liability of \$536,342, and accrued pension liability of \$1,508,476. JWU's total liabilities decreased \$705,538 from 2017.

JACKSONVILLE WASTEWATER UTILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 and 2017

A condensed summary of JWU's changes in net position as of December 31, 2018, 2017 and 2016 is provided below:

TABLE 2
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Total operating revenues	\$ 4,765,790	\$ 4,905,432	\$ 4,928,496
Total other revenues	<u>128,714</u>	<u>69,169</u>	<u>32,520</u>
Total Revenues	<u>4,894,504</u>	<u>4,974,601</u>	<u>4,961,016</u>
Expenses:			
Depreciation	2,072,242	2,091,962	2,075,069
Other operating expenses	3,009,554	3,136,073	3,089,715
Bond issue cost	-	-	221,281
Gain (loss) on disposal of capital assets	(1,129)	(984)	-
Interest expense	<u>549,265</u>	<u>560,564</u>	<u>625,164</u>
Total Expenses	<u>5,632,190</u>	<u>5,789,583</u>	<u>6,011,229</u>
Change in net position before contributions	(737,686)	(814,982)	(1,050,213)
Capital contributions	<u>-</u>	<u>367,032</u>	<u>50,630</u>
Change in net position	(737,686)	(447,950)	(999,583)
Beginning net position	<u>24,851,047</u>	<u>25,298,997</u>	<u>26,298,580</u>
Ending net position	<u>\$ 24,113,361</u>	<u>\$ 24,851,047</u>	<u>\$ 25,298,997</u>

Total operating revenues amounted to \$4,765,790 during 2018 which represents 2.93% decrease over the previous year. Total operating expenses including provisions for depreciation and closure and post-closure care costs amounted to \$5,081,796, a decrease of 2.88%. The operating loss for 2018 was \$316,006, a decrease of 2.04% over the operating loss for 2017.

JACKSONVILLE WASTEWATER UTILITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 and 2017

JWU experienced an increase in total cash in the amount of \$424,178 during 2018, primarily attributable to the decrease in interest on Revenue Refunding Bonds and increase in interest on investments.

JWU's net cash provided by operating activities was \$1,931,536 in 2018, an increase of \$44,067 from 2017. Net cash used in capital financing activities was \$1,636,072 in 2018, an increase of \$154,413 from 2017.

BUDGET ANALYSIS AND VARIANCES

JWU budgeted total operating revenues of \$4,837,623 as compared to actual results of \$4,765,790. Total operating expenses were budgeted at \$5,295,193 including budgeted depreciation of \$2,100,000 and closure/post closure of \$115,000. Actual operating expenses amounted to \$5,081,796 which resulted in a \$141,564 variance over budgeted versus 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 2009	688,916 million gallons, down 5.5% from previous year
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

PROPOSED PLANS FOR THE FUTURE

On-going rehabilitation of the aging system is being budgeted annually as funds allow.

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, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 7,761,104	\$ 7,351,633
Accounts receivable	922,380	951,711
Revenues earned and unbilled	180,877	221,281
Inventories of materials and supplies, at cost	118,766	120,258
Prepaid items	10,571	10,309
Restricted Current Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	<u>112,519</u>	<u>98,063</u>
Total Current Assets	<u>9,106,217</u>	<u>8,753,255</u>
Noncurrent Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	576,813	576,562
Capital assets (net of accumulated depreciation)	<u>31,550,672</u>	<u>32,995,914</u>
Total Noncurrent Assets	<u>32,127,485</u>	<u>33,572,476</u>
Total Assets	41,233,702	42,325,731
Deferred Outflows of Resources:		
Deferred amounts on bond refunding	123,496	133,165
Deferred amounts on pension funding	<u>308,628</u>	<u>520,679</u>
Total Deferred Outflows of Resources	<u>432,124</u>	<u>653,844</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 41,665,826</u></u>	<u><u>\$ 42,979,575</u></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, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2018</u>	<u>2017</u>
Current Liabilities:		
Accounts payable	\$ 58,888	\$ 25,781
Accrued expenses	70,430	85,723
Bonds payable, current	460,000	450,000
Current Liabilities Payable from Restricted Assets:		
Accrued interest payable	45,558	46,495
Total Current Liabilities	<u>634,876</u>	<u>607,999</u>
Noncurrent Liabilities:		
Bonds payable	14,626,200	15,103,610
Closure and postclosure liability	536,342	457,028
Net pension liability	1,508,476	1,842,795
Total Noncurrent Liabilities	<u>16,671,018</u>	<u>17,403,433</u>
Total Liabilities	<u>17,305,894</u>	<u>18,011,432</u>
Deferred Inflows of Resources:		
Deferred amounts on pension funding	<u>246,571</u>	<u>117,095</u>
NET POSITION		
Net investment in capital assets	16,418,914	17,395,809
Restricted For		
Debt service	689,332	674,625
Unrestricted	7,005,115	6,780,613
Total Net Position	<u>24,113,361</u>	<u>24,851,047</u>
Total Liabilities, Deferred Inflows of Resources, and Total Net Position	<u><u>\$ 41,665,826</u></u>	<u><u>\$ 42,979,575</u></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 REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Sewer charges	\$ 4,732,378	\$ 4,863,118
Other	<u>33,412</u>	<u>42,314</u>
Total Operating Revenues	4,765,790	4,905,432
Operating Expenses:		
Technical service	566,132	609,856
Treatment	1,040,779	1,055,500
Collection system	691,799	743,747
Laboratory services	212,759	218,277
Administrative	<u>418,772</u>	<u>407,097</u>
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>2,930,241</u>	<u>3,034,477</u>
Provisions For:		
Depreciation	2,072,242	2,091,962
Closure and post-closure care costs	<u>79,313</u>	<u>101,596</u>
	<u>2,151,555</u>	<u>2,193,558</u>
Operating Income (Loss)	(316,006)	(322,603)
Nonoperating Revenues (Expenses):		
Interest income	128,714	69,169
Interest expense	(549,265)	(560,564)
Gain (loss) on disposal of capital assets	<u>(1,129)</u>	<u>(984)</u>
Total Nonoperating Revenues (Expenses)	<u>(421,680)</u>	<u>(492,379)</u>
Change in Net Position Before Capital Contributions	(737,686)	(814,982)
Capital Contributions	<u>-</u>	<u>367,032</u>
Change in Net Position	(737,686)	(447,950)
Net Position, Beginning of Year	<u>24,851,047</u>	<u>25,298,997</u>
Net Position, End of Year	<u><u>\$ 24,113,361</u></u>	<u><u>\$ 24,851,047</u></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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 4,802,112	\$ 4,829,812
Other receipts	33,412	42,314
Payments to employees	(1,912,978)	(1,939,995)
Payments to suppliers	(618,562)	(692,290)
Payments for other administration costs	<u>(372,448)</u>	<u>(352,372)</u>
Net Cash Provided by Operating Activities	1,931,536	1,887,469
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(628,128)	(654,362)
Principal paid on outstanding bonds payable	(450,000)	(440,000)
Interest paid on bonds payable	(557,944)	(568,943)
Contributions in aid of construction	<u>-</u>	<u>181,646</u>
Net Cash Used in Capital and Related Financing Activities	(1,636,072)	(1,481,659)
Cash Flows from Investing Activities:		
Interest on investments	<u>128,714</u>	<u>69,169</u>
Net Cash Provided by Investing Activities	<u>128,714</u>	<u>69,169</u>
Net Increase in Cash and Cash Equivalents	424,178	474,979
Cash and Cash Equivalents at Beginning of Year	<u>8,026,258</u>	<u>7,551,279</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 8,450,436</u></u>	<u><u>\$ 8,026,258</u></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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided By Operating Activities:		
Operating income (loss)	\$ (316,006)	\$ (322,603)
Adjustments to reconcile operating income (loss) to		
net cash provided by operating activities:		
Depreciation	2,072,242	2,091,962
Closure and post-closure care costs	79,313	101,596
Change in operating assets and liabilities:		
Accounts receivable - customers	29,331	(26,342)
Revenues earned and unbilled	40,404	(6,964)
Inventories of materials and supplies	1,492	(2,164)
Prepaid items	(262)	(643)
Accounts payable	33,107	(82,177)
Accrued liabilities	(15,293)	29,905
Net pension liability and related accounts	7,208	104,899
Net Cash Provided by Operating Activities	<u>\$ 1,931,536</u>	<u>\$ 1,887,469</u>
Reconciliation of Total Cash and Cash Equivalents		
Current Assets:		
Cash and cash equivalents	\$ 7,761,104	\$ 7,351,633
Restricted for bond requirements-cash and cash equivalents	112,519	98,063
Noncurrent Assets:		
Restricted for bond requirements-cash and cash equivalents	<u>576,813</u>	<u>576,562</u>
Total Cash and Cash Equivalents	<u>\$ 8,450,436</u>	<u>\$ 8,026,258</u>

Supplemental Schedule of Noncash Investing and Financing Activities:

During 2017, the Utility received donated sewer lines capitalized in the amount of \$185,386.

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, 2018 AND 2017

NOTE 1: 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 and rehabilitation of sewer treatment plants. The Utility had approximately 9,600 customers at December 31, 2018 and 2017, 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. The financial statements present only Jacksonville Wastewater Utility and are not intended to present the financial position of the City and the results of its operations and cash flows in accordance with accounting principles generally accepted in the United States of America.

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.

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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, and money market funds 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 \$35,818 and \$31,960 in bad debt expense related to operating revenues for the years ended December 31, 2018 and 2017, 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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets and Capital Contributions

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.

G. 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.

H. 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.

I. 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, 2018 through March 29, 2019 the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2: DEPOSITS AND INVESTMENTS

Custodial Credit Risk

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 \$7,828,833 at December 31, 2018 and \$7,427,192 at December 31, 2017. The December 31, 2018 and 2017 deposits were fully covered by FDIC insurance and appropriate collateralization.

Commission Designated Funds

Included in cash and cash equivalents shown in the statements of net position are investments in a bank money market account that are designated by the Wastewater Commission as follows:

	<u>2018</u>	<u>2017</u>
Construction fund	\$ 1,341,770	\$ 1,160,462
Emergency equipment replacement fund	500,000	500,000
Emergency capital reserve fund	551,808	501,808
Equipment fund	100,699	120,342
Depreciation fund	161,434	133,787
Pump station fund	58,490	46,197
	<u>\$ 2,714,201</u>	<u>\$ 2,462,596</u>

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, JWU had accounts receivable from the Little Rock Air Force Base totaling \$119,631 and \$112,469, respectively, representing approximately 10% and 12%, 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 \$591,990 in 2018 and \$617,212 in 2017 or approximately 12% of the total sewer service revenue received by the Utility for both years.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017 is presented as follows:

<u>2018</u>	<u>Balance</u> <u>12/31/17</u>	<u>Additions and</u> <u>Transfers, Net</u>	<u>Retirements and</u> <u>Transfers, Net</u>	<u>Balance</u> <u>12/31/18</u>
Capital assets not being depreciated				
Land and easements	\$ 411,491	\$ -	\$ -	\$ 411,491
Construction in progress	<u>13,954</u>	<u>570,217</u>	<u>501,793</u>	<u>82,379</u>
Total capital assets, not being depreciated	<u>425,445</u>	<u>570,217</u>	<u>501,793</u>	<u>493,870</u>
Capital assets being depreciated				
Buildings and improvements	2,412,229	7,655	4,930	2,414,955
Infrastructure-collection and treatment	60,120,787	543,545	719	60,663,613
Equipment and vehicles	<u>2,510,606</u>	<u>8,506</u>	<u>564</u>	<u>2,518,549</u>
Total capital assets being depreciated	65,043,622	559,706	6,213	65,597,117
Less: accumulated depreciation	<u>32,473,155</u>	<u>2,072,242</u>	<u>5,083</u>	<u>34,540,314</u>
Capital Assets, Net	<u>\$ 32,995,914</u>	<u>\$ (942,319)</u>	<u>\$ 502,923</u>	<u>\$ 31,550,673</u>
<u>2017</u>	<u>Balance</u> <u>12/31/16</u>	<u>Additions and</u> <u>Transfers, Net</u>	<u>Retirements and</u> <u>Transfers, Net</u>	<u>Balance</u> <u>12/31/17</u>
Capital assets not being depreciated				
Land and easements	\$ 410,241	\$ 1,250	\$ -	\$ 411,491
Construction in progress	<u>-</u>	<u>13,954</u>	<u>-</u>	<u>13,954</u>
Total capital assets, not being depreciated	<u>410,241</u>	<u>15,204</u>	<u>-</u>	<u>425,445</u>
Capital assets being depreciated				
Buildings and improvements	2,412,421	3,424	3,616	2,412,229
Infrastructure-collection and treatment	59,503,540	680,931	63,684	60,120,787
Equipment and vehicles	<u>2,435,812</u>	<u>140,187</u>	<u>65,393</u>	<u>2,510,606</u>
Total capital assets being depreciated	64,351,773	824,542	132,693	65,043,622
Less: accumulated depreciation	<u>30,512,902</u>	<u>2,091,962</u>	<u>131,709</u>	<u>32,473,155</u>
Capital Assets, Net	<u>\$ 34,249,112</u>	<u>\$ (1,252,216)</u>	<u>\$ 984</u>	<u>\$ 32,995,914</u>

Depreciation expense was \$2,072,242 and \$2,091,962 for the years ended December 31, 2018 and 2017, respectively.

JACKSONVILLE WASTEWATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
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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 \$185,386 for the year ended December 31, 2017.

Contributions in aid of construction from the Arkansas State Highway and Transportation Department were \$181,646 for utilities relocation for the year ended December 31, 2017.

NOTE 7: LONG-TERM DEBT

Changes in long-term debt for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>				
	Balance at December 31, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2018</u>	Amount Due Within <u>One Year</u>
Wastewater revenue bonds	\$ 15,295,000	\$ -	\$ 450,000	\$ 14,845,000	\$ 460,000
Add issuance premium	<u>258,610</u>	<u>-</u>	<u>17,410</u>	<u>241,200</u>	<u>-</u>
Total long-term liabilities	<u>\$ 15,553,610</u>	<u>\$ -</u>	<u>\$ 467,410</u>	<u>\$ 15,086,200</u>	<u>\$ 460,000</u>

	<u>2017</u>				
	Balance at December 31, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2017</u>	Amount Due Within <u>One Year</u>
Wastewater revenue bonds	\$ 15,735,000	\$ -	\$ 440,000	\$ 15,295,000	\$ 450,000
Add issuance premium	<u>276,019</u>	<u>-</u>	<u>17,409</u>	<u>258,610</u>	<u>-</u>
Total long-term liabilities	<u>\$ 16,011,019</u>	<u>\$ -</u>	<u>\$ 457,409</u>	<u>\$ 15,553,610</u>	<u>\$ 450,000</u>

JACKSONVILLE WASTEWATER UTILITY
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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 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 2020. Interest payments are due semiannually on June 1 and December 1. Maturity dates are 2010 to 2020. The bonds are subject to redemption in part by sinking fund installments due on December 1. Bonds maturing on or after June 1, 2017 are also subject to optional redemption at the direction of the City.

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 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 2023 to 2039. Bonds maturing on or after June 1, 2017 are subject to optional redemption at the direction of the Utility. Term bonds due December 1, 2031, 2034 and 2039 are subject to redemption in part by mandatory sinking fund installments due annually on December 1, beginning in 2027.

The difference between the reacquisition price of the 2016 Series A&B Bonds and the net carrying value of the 2009 Series A&B Bonds is reported as a deferred inflow 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 23 years by approximately \$2,423,000. 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 \$2,057,000.

Bond premium associated with the Series 2016B issue in the amount of \$285,938 is being amortized as a component of interest expense using the bonds outstanding method.

The Utility paid approximately \$557,944 and \$568,944 in interest charges related to the bonds for the years ended December 31, 2018 and 2017, respectively.

JACKSONVILLE WASTEWATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018:

<u>Wastewater Revenue Bonds</u>			
<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 460,000	\$ 546,694	\$ 1,006,694
2020	370,000	535,194	905,194
2021	-	525,943	525,943
2022	-	525,943	525,943
2023	440,000	525,943	965,943
2024 to 2028	3,470,000	2,275,119	5,745,119
2029 to 2033	4,225,000	1,527,319	5,752,319
2034 to 2038	5,050,000	704,913	5,754,913
2039	830,000	30,088	860,088
	<u>\$ 14,845,000</u>	<u>\$ 7,197,156</u>	<u>\$ 22,042,156</u>

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description

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

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all State employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of the System is vested in the nine members of the Board of Trustees of the Arkansas Public Employees Retirement System (the Board). 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.

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NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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.

JACKSONVILLE WASTEWATER UTILITY
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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 14.75% and 14.50% of compensation for the plan years ended June 30, 2018 and 2017, respectively. Contributions to the pension plan from JWU were \$197,315 and \$193,916 for the years ended December 31, 2018 and 2017.

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

At December 31, 2018 and 2017, JWU reported a liability of \$1,508,476 and \$1,842,795, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018 JWU's proportion was 0.06838261%, which was a decrease of 0.00292912% from its proportion measured as of June 30, 2017.

For the years ended December 31, 2018 and 2017, JWU recognized pension expense of \$204,523 and \$298,815, respectively. At December 31, 2018 and 2017, JWU reported deferred outflows and inflows of resources related to pensions from the following sources:

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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

	<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 38,171
Differences between expected and actual economic experience	23,990	15,835
Changes of actuarial assumptions	171,633	93,287
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,951	99,278
JWU contributions subsequent to the measurement date	<u>109,054</u>	<u>-</u>
	<u><u>\$ 308,628</u></u>	<u><u>\$ 246,571</u></u>
	<u>2017</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 77,219	\$ -
Differences between expected and actual economic experience	35,723	36,244
Changes of actuarial assumptions	296,503	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,566	80,851
JWU contributions subsequent to the measurement date	<u>100,668</u>	<u>-</u>
	<u><u>\$ 520,679</u></u>	<u><u>\$ 117,095</u></u>

JACKSONVILLE WASTEWATER UTILITY
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

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

The \$109,054 reported as deferred outflows of resources at December 31, 2018 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, 2019. 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>		
2019	\$	71,224
2020		12,977
2021		(96,068)
2022		<u>(35,130)</u>
	\$	<u><u>(46,997)</u></u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level of Percent of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	4-year smoothed market; 25% corridor
Investment Rate of Return	7.15%
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25 – 9.85% including inflation
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8: PUBLIC EMPLOYEES RETIREMENT SYSTEM (Continued)

Actuarial Assumptions (Continued)

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
Average Service Life of All Members	4.1233

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, 2018 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%	5.97%
International Equity	24%	6.07%
Real Assets	16%	4.59%
Absolute Return	5%	3.15%
Domestic Fixed	<u>18%</u>	0.83%
Total	100%	
Total Real Rate of Return		4.71%
Plus Price Inflation-Actuary Assumption		<u>2.50%</u>
Net Expected Return		7.21%

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
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 Utility's proportionate share of the net pension liability calculated using the discount rate of 7.15%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate the is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
JWU's proportionate share of the net pension liability	\$ <u>2,466,283</u>	\$ <u>1,508,476</u>	\$ <u>718,362</u>

APERS Fiduciary Net Position

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

Historical trend information showing the "PERS" progress in accumulating sufficient assets to pay benefits when due is presented in the Arkansas Public Employees Retirement System annual financial report. This report may be obtained by writing the Arkansas Public Employees Retirement System, 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201.

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, 2018, 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
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 \$89,124 and \$88,413 for the years ended December 31, 2018 and 2017, 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 2017 to 2018, 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 2017 year. The liability for post-closure of \$536,342 is based upon capacity used during 2017 and is reported in other long-term liabilities. At December 31, 2017, the estimated total closure and post-closure care costs remaining to be recognized is approximately \$1,330,749. Capacity used to date is 60.53% and the estimated remaining life is 16.2 years. As of December 31, 2018, the 2018 engineering report was not available.

NOTE 14: COMMITMENTS

At December 31, 2018 and 2017, the JWU had no outstanding commitments under contracts for construction or engineering services related to repair, rehabilitation, and improvements of the municipal wastewater system.

NOTE 15: SUBSEQUENT EVENTS

Jacksonville Wastewater Utility did not have any recognized or nonrecognized subsequent events occur after December 31, 2018, the date of the statement of net position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through March 29, 2019, 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
JWU's proportion of the net pension liability	0.06838261%	0.07131173%	0.07483451%	0.07782077%
JWU's proportionate share of the net pension liability	\$ 1,508,476	\$ 1,842,795	\$ 1,789,554	\$ 1,433,251
JWU's covered-employee payroll	\$ 1,280,805	\$ 1,285,256	\$ 1,321,144	\$ 1,384,654
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	117.78%	143.38%	135.45%	103.51%
Plan fiduciary net position as a percentage of the total pension liability	79.59%	75.65%	75.50%	80.39%

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

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

Methods and Assumptions Used to Determine Contribution Rates:

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

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED DECEMBER 31, 2018

	<u>Original and</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over (Under)</u>
Operating Revenues:			
Sewer charges	\$ 4,822,623	\$ 4,732,378	\$ (90,245)
Other income	<u>15,000</u>	<u>33,412</u>	<u>18,412</u>
Total Operating Revenues	4,837,623	4,765,790	(71,833)
Operating Expenses:			
Technical service	581,503	566,132	(15,371)
Treatment	1,083,427	1,040,779	(42,648)
Collection system	777,960	691,799	(86,161)
Laboratory services	216,166	212,759	(3,407)
Administrative	<u>421,133</u>	<u>418,772</u>	<u>(2,361)</u>
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,080,189</u>	<u>2,930,241</u>	<u>(149,948)</u>
Provisions For:			
Depreciation	2,100,000	2,072,242	(27,758)
Closure and post-closure care costs	<u>115,000</u>	<u>79,313</u>	<u>(35,687)</u>
	<u>2,215,000</u>	<u>2,151,555</u>	<u>(63,445)</u>
Operating Income (Loss)	(457,566)	(316,006)	141,560
Nonoperating Revenues (Expenses):			
Interest income	45,000	128,714	83,714
Interest expense	(585,022)	(549,265)	35,757
Gain (loss) on disposal of capital assets	<u>-</u>	<u>(1,129)</u>	<u>(1,129)</u>
Total Nonoperating Revenues (Expenses)	<u>(540,022)</u>	<u>(421,680)</u>	<u>118,342</u>
Change in Net Position Before Capital Contributions	<u>\$ (997,588)</u>	<u>\$ (737,686)</u>	<u>\$ 259,902</u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Technical Services		
Salaries	\$ 336,480	\$ 343,714
Employee benefits	160,865	195,011
Supplies	19,896	18,271
Contract services	19,020	22,912
Repairs and maintenance	21,754	21,907
Utilities	3,240	3,103
Insurance	4,877	4,938
Total Technical Services	<u>566,132</u>	<u>609,856</u>
Treatment		
Salaries	404,901	393,990
Employee benefits	186,990	208,191
Supplies	36,764	32,098
Contract services	24,524	22,634
Repairs and maintenance	100,451	121,944
Utilities	268,047	258,355
Insurance	19,102	18,288
Total Treatment	<u>1,040,779</u>	<u>1,055,500</u>
Collection System		
Salaries	338,272	358,408
Employee benefits	167,488	201,927
Supplies	29,143	24,452
Contract services	2,218	1,803
Repairs and maintenance	146,074	147,430
Utilities	3,332	3,123
Insurance	5,272	6,603
Total Collection System	<u>691,799</u>	<u>743,747</u>
Laboratory Services		
Salaries	120,276	120,664
Employee benefits	53,838	60,319
Supplies	11,136	9,741
Contract services	23,215	22,803
Repairs and maintenance	2,036	2,582
Utilities	992	956
Insurance	1,266	1,212
Total Laboratory Services	<u>212,759</u>	<u>218,277</u>

(Continued)

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULES OF OPERATING EXPENSES BY DEPARTMENT (Continued)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Administrative		
Salaries	\$ 104,213	\$ 104,553
Employee benefits	46,860	58,114
Supplies	16,385	15,225
Contract services	243,722	221,993
Repairs and maintenance	1,856	2,045
Utilities	5,310	4,748
Insurance	426	420
Total Administrative	<u>418,772</u>	<u>407,097</u>
 Total Operating Expenses	 <u><u>\$ 2,930,241</u></u>	 <u><u>\$ 3,034,477</u></u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2018

Wastewater Revenue Refunding Bonds, Series 2016A

<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>	
2019	2.500%	\$ -	\$ 460,000	\$ 10,375	\$ 10,375	\$ 480,750
2020	2.500%	-	370,000	4,625	4,625	379,250
		<u>\$ -</u>	<u>\$ 830,000</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 860,000</u>

Wastewater Revenue Refunding Bonds, Series 2016B

<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>	
2019	3.750%	\$ -	\$ -	\$ 262,972	\$ 262,972	\$ 525,944
2020	3.750%	-	-	262,972	262,972	525,944
2021	3.750%	-	-	262,972	262,972	525,944
2022	3.750%	-	-	262,972	262,972	525,944
2023	4.000%	-	440,000	262,972	262,972	965,944
2024	4.000%	-	640,000	254,172	254,172	1,148,344
2025	4.000%	-	665,000	241,372	241,372	1,147,744
2026	4.000%	-	695,000	228,072	228,072	1,151,144
2027	4.000%	-	720,000	214,172	214,172	1,148,344
2028	4.000%	-	750,000	199,772	199,772	1,149,544
2029	4.000%	-	780,000	184,772	184,772	1,149,544
2030	4.000%	-	810,000	169,172	169,172	1,148,344
2031	3.500%	-	845,000	152,972	152,972	1,150,944
2032	3.500%	-	880,000	136,072	136,072	1,152,144
2033	3.500%	-	910,000	120,672	120,672	1,151,344
2034	3.500%	-	940,000	104,747	104,747	1,149,494
2035	3.500%	-	975,000	88,297	88,297	1,151,594
2036	3.500%	-	1,010,000	71,234	71,234	1,152,468
2037	3.625%	-	1,045,000	53,559	53,559	1,152,118
2038	3.625%	-	1,080,000	34,618	34,618	1,149,236
2039	3.625%	-	830,000	15,043	15,043	860,086
		<u>\$ -</u>	<u>\$ 14,015,000</u>	<u>\$ 3,583,578</u>	<u>\$ 3,583,578</u>	<u>\$ 21,182,156</u>

See independent auditor's report.

**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, 2018, 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 March 29, 2019.

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.

McAlister & Associates, P.A.
Certified Public Accountants

Jacksonville, Arkansas
March 29, 2019

EXHIBIT “B”

JACKSONVILLE WASTEWATER UTILITY

Independent Auditor’s Report

Financial Statements and Supplementary Schedules

December 31, 2019 and 2018

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

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

DECEMBER 31, 2019 and 2018

**JACKSONVILLE WASTEWATER UTILITY
JACKSONVILLE, ARKANSAS
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
DECEMBER 31, 2019 AND 2018**

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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, 2019 and 2018, 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, 2019 and 2018, 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 March 27, 2020 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
March 27, 2020

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 and 2018

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, 2019. 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-four (24) 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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 and 2018

FINANCIAL ANALYSIS AND RESULTS OF OPERATIONS

A condensed summary of JWU's net position as of December 31, 2019, 2018, and 2017 is provided below:

TABLE 1
SUMMARY OF ASSETS, LIABILITIES, AND NET POSITION
DECEMBER 31, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets and Deferred Outflows of Resources:			
Total current assets	\$ 9,718,342	\$ 9,106,217	\$ 8,753,255
Total restricted noncurrent assets	576,234	576,813	576,562
Net capital assets	30,247,634	31,550,672	32,995,914
Other assets			
Deferred Outflows of Resources	353,424	432,124	653,844
Total Assets and Deferred Outflows of Resources	<u>\$ 40,895,634</u>	<u>\$ 41,665,826</u>	<u>\$ 42,979,575</u>
Liabilities, Deferred Inflows of Resources, and Net Position:			
Total current liabilities	\$ 538,734	\$ 634,876	\$ 607,999
Total noncurrent liabilities	16,459,258	16,671,018	17,403,433
Total Liabilities	<u>16,997,992</u>	<u>17,305,894</u>	<u>18,011,432</u>
Deferred Inflows of Resources	<u>136,075</u>	<u>246,571</u>	<u>117,095</u>
Net Position:			
Invested in capital assets	15,594,243	16,418,914	17,395,809
Restricted	700,450	689,332	674,625
Unrestricted	7,466,874	7,005,115	6,780,613
Total Net Position	<u>23,761,567</u>	<u>24,113,361</u>	<u>24,851,047</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,895,634</u>	<u>\$ 41,665,826</u>	<u>\$42,979,575</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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 and 2018

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 will provide a \$2,423,000 reduction in debt service payments over the next 22 years.

Total assets exceeded liabilities at year-end by \$23,761,567 (net position). Of this amount, \$7,466,874 (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 \$770,192 from 2018. Total assets amounted to \$40,542,210 consisting of capital assets in the amount of \$30,247,634 and other assets in the amount of \$10,294,576. Cash (both restricted and unrestricted) in the amount of \$8,960,314 is included in the other asset amount.

Total liabilities amounted to \$16,997,992, consisting of long-term liabilities in the amount of \$16,459,258 and other liabilities in the amount of \$538,734. The Utility's total liabilities include revenue bonds payable (net of unamortized discount) in the amount of \$14,608,791, closure/post-closure liability of \$563,721, and accrued pension liability of \$1,656,746. JWU's total liabilities decreased \$307,902 from 2018.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 and 2018

A condensed summary of JWU's changes in net position as of December 31, 2019, 2018 and 2017 is provided below:

TABLE 2
SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues:			
Total operating revenues	\$ 4,996,761	\$ 4,765,790	\$ 4,905,432
Total other revenues	212,597	128,714	69,169
Total Revenues	<u>5,209,358</u>	<u>4,894,504</u>	<u>4,974,601</u>
Expenses:			
Depreciation	2,049,167	2,072,242	2,091,962
Other operating expenses	3,095,842	3,009,554	3,136,073
Bond issue cost	-	-	-
Gain (loss) on disposal of capital assets	-	(1,129)	(984)
Interest expense	537,710	549,265	560,564
Total Expenses	<u>5,682,719</u>	<u>5,632,190</u>	<u>5,789,583</u>
Change in net position before contributions	(473,361)	(737,686)	(814,982)
Capital contributions	<u>121,566</u>	<u>-</u>	<u>367,032</u>
Change in net position	(351,795)	(737,686)	(447,950)
Beginning net position	<u>24,113,361</u>	<u>24,851,047</u>	<u>25,298,997</u>
Ending net position	<u><u>\$ 23,761,567</u></u>	<u><u>\$ 24,113,361</u></u>	<u><u>\$ 24,851,047</u></u>

Total operating revenues amounted to \$4,996,761 during 2019 which represents 4.84% increase over the previous year. Total operating expenses including provisions for depreciation and closure and post-closure care costs amounted to \$5,145,009 an increase of 1.23%. The operating loss for 2019 was \$148,248, a decrease of 53.1% over the operating loss for 2018.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 and 2018

JWU experienced an increase in total cash in the amount of \$509,878 during 2019, primarily attributable to the decrease in interest on Revenue Refunding Bonds and increase in interest on investments.

JWU's net cash provided by operating activities was \$1,928,538 in 2019, a decrease of \$2,998 from 2018. Net cash used in capital financing activities was \$1,631,258 in 2019, a decrease of \$4,814 from 2018.

BUDGET ANALYSIS AND VARIANCES

JWU budgeted total operating revenues of \$4,787,402 as compared to actual results of \$4,996,761. Total operating expenses were budgeted at \$5,218,841 including budgeted depreciation of \$2,100,000 and closure/post closure of \$90,000. Actual operating expenses amounted to \$5,145,009 which resulted in a \$73,832 variance over budgeted versus 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

PROPOSED PLANS FOR THE FUTURE

On-going rehabilitation of the aging system is being budgeted annually as funds allow.

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, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and cash equivalents	\$ 8,259,864	\$ 7,761,104
Accounts receivable	1,041,770	922,380
Revenues earned and unbilled	187,124	180,877
Inventories of materials and supplies, at cost	93,688	118,766
Prepaid items	11,680	10,571
Restricted Current Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	124,216	112,519
Total Current Assets	<u>9,718,342</u>	<u>9,106,217</u>
Noncurrent Assets:		
Restricted for Bond Requirements:		
Cash and cash equivalents	576,234	576,813
Capital assets (net of accumulated depreciation)	<u>30,247,634</u>	<u>31,550,672</u>
Total Noncurrent Assets	<u>30,823,868</u>	<u>32,127,485</u>
Total Assets	40,542,210	41,233,702
Deferred Outflows of Resources:		
Deferred amounts on bond refunding	114,112	123,496
Deferred amounts on pension funding	<u>239,312</u>	<u>308,628</u>
Total Deferred Outflows of Resources	<u>353,424</u>	<u>432,124</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 40,895,634</u>	<u>\$ 41,665,826</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, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2019</u>	<u>2018</u>
Current Liabilities:		
Accounts payable	\$ 62,740	\$ 58,888
Accrued expenses	61,394	70,430
Bonds payable, current	370,000	460,000
Current Liabilities Payable from Restricted Assets:		
Accrued interest payable	44,600	45,558
Total Current Liabilities	<u>538,734</u>	<u>634,876</u>
Noncurrent Liabilities:		
Bonds payable	14,238,791	14,626,200
Closure and postclosure liability	563,721	536,342
Net pension liability	1,656,746	1,508,476
Total Noncurrent Liabilities	<u>16,459,258</u>	<u>16,671,018</u>
Total Liabilities	<u>16,997,992</u>	<u>17,305,894</u>
Deferred Inflows of Resources:		
Deferred amounts on pension funding	<u>136,075</u>	<u>246,571</u>
NET POSITION		
Net investment in capital assets	15,594,243	16,418,914
Restricted For		
Debt service	700,450	689,332
Unrestricted	7,466,874	7,005,115
Total Net Position	<u>23,761,567</u>	<u>24,113,361</u>
Total Liabilities, Deferred Inflows of Resources, and Total Net Position	<u><u>\$ 40,895,634</u></u>	<u><u>\$ 41,665,826</u></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 REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Sewer charges	\$ 4,956,438	\$ 4,732,378
Other	<u>40,323</u>	<u>33,412</u>
Total Operating Revenues	4,996,761	4,765,790
Operating Expenses:		
Salaries and benefits	1,958,420	1,920,185
Supplies	98,819	113,325
Contract services	323,997	312,699
Maintenance and repair	301,836	272,171
Insurance	33,359	30,940
Utilities	<u>352,031</u>	<u>280,921</u>
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	<u>3,068,462</u>	<u>2,930,241</u>
Provisions For:		
Depreciation	2,049,167	2,072,242
Closure and post-closure care costs	<u>27,380</u>	<u>79,313</u>
	<u>2,076,547</u>	<u>2,151,555</u>
Operating Income (Loss)	(148,248)	(316,006)
Nonoperating Revenues (Expenses):		
Interest income	212,597	128,714
Interest expense	(537,710)	(549,265)
Gain (loss) on disposal of capital assets	<u>-</u>	<u>(1,129)</u>
Total Nonoperating Revenues (Expenses)	<u>(325,113)</u>	<u>(421,680)</u>
Change in Net Position Before Capital Contributions	(473,361)	(737,686)
Capital Contributions	<u>121,566</u>	<u>-</u>
Change in Net Position	(351,795)	(737,686)
Net Position, Beginning of Year	<u>24,113,361</u>	<u>24,851,047</u>
Net Position, End of Year	<u><u>\$ 23,761,567</u></u>	<u><u>\$ 24,113,361</u></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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 4,830,801	\$ 4,802,112
Other receipts	40,325	33,412
Payments to employees	(1,851,332)	(1,912,978)
Payments to suppliers	(705,036)	(618,562)
Payments for other administration costs	<u>(386,220)</u>	<u>(372,448)</u>
Net Cash Provided by Operating Activities	1,928,538	1,931,536
Cash Flows from Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(624,563)	(628,128)
Principal paid on outstanding bonds payable	(460,000)	(450,000)
Interest paid on bonds payable	<u>(546,695)</u>	<u>(557,944)</u>
Net Cash Used in Capital and Related Financing Activities	(1,631,258)	(1,636,072)
Cash Flows from Investing Activities:		
Interest on investments	<u>212,597</u>	<u>128,714</u>
Net Cash Provided by Investing Activities	<u>212,597</u>	<u>128,714</u>
Net Increase in Cash and Cash Equivalents	509,878	424,178
Cash and Cash Equivalents at Beginning of Year	<u>8,450,436</u>	<u>8,026,258</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 8,960,314</u></u>	<u><u>\$ 8,450,436</u></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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income (Loss) to Net Cash		
Provided By Operating Activities:		
Operating income (loss)	\$ (148,248)	\$ (316,006)
Adjustments to reconcile operating income (loss) to		
net cash provided by operating activities:		
Depreciation	2,049,167	2,072,242
Closure and post-closure care costs	27,380	79,313
Change in operating assets and liabilities:		
Accounts receivable - customers	(119,390)	29,331
Revenues earned and unbilled	(6,247)	40,404
Inventories of materials and supplies	25,078	1,492
Prepaid items	(1,109)	(262)
Accounts payable	3,852	33,107
Accrued liabilities	(9,035)	(15,293)
Net pension liability and related accounts	107,090	7,208
Net Cash Provided by Operating Activities	<u>\$ 1,928,538</u>	<u>\$ 1,931,536</u>
Reconciliation of Total Cash and Cash Equivalents		
Current Assets:		
Cash and cash equivalents	\$ 8,259,864	\$ 7,761,104
Restricted for bond requirements-cash and cash equivalents	124,216	112,519
Noncurrent Assets:		
Restricted for bond requirements-cash and cash equivalents	576,234	576,813
Total Cash and Cash Equivalents	<u>\$ 8,960,314</u>	<u>\$ 8,450,436</u>

Supplemental Schedule of Noncash Investing and Financing Activities:
During 2019, the Utility received donated sewer lines capitalized in the amount of \$121,566.

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, 2019 AND 2018

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 9,674 and 9,477 customers at December 31, 2019 and 2018, 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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 \$8,881 and \$35,818 in bad debt expense related to operating revenues for the years ended December 31, 2019 and 2018, 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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018.

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.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 2018 financial statements to conform to the 2019 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, 2019 through March 27, 2020 the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 \$8,323,583 at December 31, 2019 and \$7,828,833 at December 31, 2018. The Utility had deposits on books of \$8,259,364 at December 31, 2019 and \$7,760,604 at December 31, 2018. 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, 2019 and 2018 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>2019</u>	<u>2018</u>
Construction fund	\$ 1,509,811	\$ 1,341,770
Emergency equipment replacement fund	500,000	500,000
Emergency capital reserve fund	601,808	551,808
Equipment fund	115,716	100,699
Depreciation fund	189,836	161,434
Pump station fund	110,774	58,490
	<u>\$ 3,027,945</u>	<u>\$ 2,714,201</u>

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, JWU had accounts receivable from the Little Rock Air Force Base totaling \$98,654 and \$119,632, respectively, representing approximately 8% and 10%, 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 \$554,388 in 2019 and \$591,990 in 2018 or approximately 11% and 12% of the total sewer service revenue received by the Utility for the years ended December 31, 2019 and 2018, respectively.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5: CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 is presented as follows:

<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>
<u>2018</u>	<u>Balance</u> <u>12/31/17</u>	<u>Additions and</u> <u>Transfers, Net</u>	<u>Retirements and</u> <u>Transfers, Net</u>	<u>Balance</u> <u>12/31/18</u>
Capital assets not being depreciated				
Land and easements	\$ 411,491	\$ -	\$ -	\$ 411,491
Construction in progress	<u>13,954</u>	<u>570,217</u>	<u>501,793</u>	<u>82,379</u>
Total capital assets, not being depreciated	<u>425,445</u>	<u>570,217</u>	<u>501,793</u>	<u>493,870</u>
Capital assets being depreciated				
Buildings and improvements	2,412,229	7,655	4,930	2,414,955
Infrastructure-collection and treatment	60,120,787	543,545	719	60,663,613
Equipment and vehicles	<u>2,510,606</u>	<u>8,506</u>	<u>564</u>	<u>2,518,549</u>
Total capital assets being depreciated	65,043,622	559,706	6,213	65,597,117
Less: accumulated depreciation	<u>32,473,155</u>	<u>2,072,242</u>	<u>5,083</u>	<u>34,540,314</u>
Capital Assets, Net	<u>\$ 32,995,914</u>	<u>\$ (942,319)</u>	<u>\$ 502,923</u>	<u>\$ 31,550,673</u>

Depreciation expense was \$2,049,167 and \$2,072,242 for the years ended December 31, 2019 and 2018, respectively.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 \$121,566 for the year ended December 31, 2019.

NOTE 7: LONG-TERM DEBT

Long-term debt consists of Wastewater Revenue Bonds for which the changes in the years ended December 31, 2019 and 2018 are as follows:

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

	<u>2018</u>				
	Balance at December 31, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance at December 31, <u>2018</u>	Amount Due Within <u>One Year</u>
Wastewater revenue bonds	\$ 15,295,000	\$ -	\$ 450,000	\$ 14,845,000	\$ 460,000
Add issuance premium	<u>258,610</u>	<u>-</u>	<u>17,410</u>	<u>241,200</u>	<u>-</u>
Total long-term liabilities	<u>\$ 15,553,610</u>	<u>\$ -</u>	<u>\$ 467,410</u>	<u>\$ 15,086,200</u>	<u>\$ 460,000</u>

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 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 2020. Interest payments are due semiannually on June 1 and December 1. Maturity dates are 2010 to 2020. The bonds are subject to redemption in part by sinking fund installments due on December 1. Bonds maturing on or after June 1, 2017 are also subject to optional redemption at the direction of the City.

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 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 2023 to 2039. Bonds maturing on or after June 1, 2017 are subject to optional redemption at the direction of the Utility. Term bonds due December 1, 2031, 2034 and 2039 are subject to redemption in part by mandatory sinking fund installments due annually on December 1, beginning in 2027.

The difference between the reacquisition price of the 2016 Series A&B Bonds and the net carrying value of the 2009 Series A&B Bonds is reported as a deferred inflow 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 23 years by approximately \$2,423,000. 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 \$2,057,000.

Bond premium associated with the Series 2016B issue in the amount of \$285,938 is being amortized as a component of interest expense using the bonds outstanding method.

The Utility paid approximately \$546,694 and \$557,944 in interest charges related to the bonds for the years ended December 31, 2019 and 2018, respectively.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019:

<u>Wastewater Revenue Bonds</u>			
<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 370,000	\$ 535,194	\$ 905,194
2021	-	525,943	525,943
2022	-	525,943	525,943
2023	440,000	525,943	965,943
2024	640,000	508,344	1,148,344
2025 to 2029	3,610,000	2,136,319	5,746,319
2030 to 2034	4,385,000	1,367,269	5,752,269
2035 to 2039	4,940,000	525,508	5,465,508
	<u>\$ 14,385,000</u>	<u>\$ 6,650,463</u>	<u>\$ 21,035,463</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 14.75% of compensation for the plan years ended June 30, 2019 and 2018, respectively. Contributions to the pension plan from JWU were \$191,949 and \$197,315 for the years ended December 31, 2019 and 2018.

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

At December 31, 2019 and 2018, JWU reported a liability of \$1,656,746 and \$1,508,476, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019 JWU's proportion was 0.06867259%, which was an increase of 0.00028998% from its proportion measured as of June 30, 2018, of 0.06838261%.

For the years ended December 31, 2019 and 2018, JWU recognized pension expense of \$298,850 and \$204,523, respectively. At December 31, 2019 and 2018, 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>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	99,486	-
	<u>\$ 239,312</u>	<u>\$ 136,075</u>
	<u>2018</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 38,171
Differences between expected and actual economic experience	23,990	15,835
Changes of actuarial assumptions	171,633	93,287
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,951	99,278
JWU contributions subsequent to the measurement date	109,054	-
	<u>\$ 308,628</u>	<u>\$ 246,571</u>

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DECEMBER 31, 2019 AND 2018

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 \$99,486 reported as deferred outflows of resources at December 31, 2019 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, 2020. 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>	
2020	\$ 46,200
2021	(63,371)
2022	(2,254)
2023	<u>23,176</u>
	<u>\$ 3,751</u>

Actuarial Assumptions

The total pension liability, net pension liability and certain sensitivity information was determined by an actuarial valuation as of June 30, 2019. 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

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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, 2019 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%	6.20%
International Equity	24%	6.33%
Real Assets	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	<u>18%</u>	1.54%
Total	<u>100%</u>	
Total Real Rate of Return		4.80%
Plus Price Inflation-Actuary Assumption		<u>2.50%</u>
Net Expected Return		<u>7.30%</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.

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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%
\$ 2,655,350	\$ 1,656,746	\$ 832,852

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, 2019, 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
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 \$87,419 and \$89,124 for the years ended December 31, 2019 and 2018, 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 2018 to 2019, 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 2018 year. The liability for post-closure of \$563,721 is based upon capacity used during 2018 and is reported in other long-term liabilities. At December 31, 2018, the estimated total closure and post-closure care costs remaining to be recognized is approximately \$1,336,984. Capacity used to date is 60.0% and the estimated remaining life is 48.2 years. As of December 31, 2019, the 2019 engineering report was not available.

NOTE 14: COMMITMENTS

At December 31, 2019, JWU had outstanding commitments under contracts for engineering services related to improvements of the municipal wastewater system in the amount of \$40,638. At December 31, 2018, JWU had no outstanding commitments under contracts for construction or engineering services related to repair, rehabilitation, and improvements of the municipal wastewater system.

NOTE 15: SUBSEQUENT EVENTS

Jacksonville Wastewater Utility did not have any recognized or nonrecognized subsequent events occur after December 31, 2019, the date of the statement of net position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through March 27, 2020, 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
JWU's proportion of the net pension liability	0.06867259%	0.06838261%	0.07131173%	0.07483451%	0.07782077%
JWU's proportionate share of the net pension liability	\$ 1,656,746	\$ 1,508,476	\$ 1,842,795	\$ 1,789,554	\$ 1,433,251
JWU's covered-employee payroll	\$ 1,314,149	\$ 1,280,805	\$ 1,285,256	\$ 1,321,144	\$ 1,384,654
JWU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	126.07%	117.78%	143.38%	135.45%	103.51%
Plan fiduciary net position as a percentage of the total pension liability	78.55%	79.59%	75.65%	75.50%	80.39%
APERS discount rate	7.15%	7.15%	7.15%	7.50%	7.50%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined as of the 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 191,759	\$ 197,315	\$ 193,916	\$ 191,264	\$ 202,377
Contributions in relation to the statutorily required contribution	<u>(191,759)</u>	<u>(197,315)</u>	<u>(193,916)</u>	<u>(191,264)</u>	<u>(202,377)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,251,692	\$ 1,310,152	\$ 1,325,586	\$ 1,319,060	\$ 1,383,077
Contributions as a percentage of covered-employee payroll	15.32%	15.06%	14.63%	14.50%	14.63%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full 10-year trend is compiled, the Utility will present information for only years which information is available. Information has been determined 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 member:	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, 2019

	<u>Original and</u> <u>Final Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Over (Under)</u>
Operating Revenues:			
Sewer charges	\$ 4,750,252	\$ 4,956,438	\$ 206,186
Other income	37,150	40,323	3,173
Total Operating Revenues	4,787,402	4,996,761	209,359
Operating Expenses:			
Technical service	563,389	559,827	(3,562)
Treatment	1,057,797	1,162,429	104,632
Collection system	763,044	706,202	(56,842)
Laboratory services	218,917	220,126	1,209
Administrative	425,691	419,878	(5,813)
Total Operating Expenses, Before Depreciation and Closure and Post-Closure Care Costs	3,028,838	3,068,462	39,624
Provisions For:			
Depreciation	2,100,000	2,049,167	(50,833)
Closure and post-closure care costs	90,000	27,380	(62,620)
	2,190,000	2,076,547	(113,453)
Operating Income (Loss)	(431,435)	(148,248)	283,187
Nonoperating Revenues (Expenses):			
Interest income	120,000	212,597	92,597
Interest expense	(554,724)	(537,710)	17,014
Total Nonoperating Revenues (Expenses)	(434,724)	(325,113)	109,611
Change in Net Position Before Capital Contributions	<u>\$ (866,159)</u>	<u>\$ (473,361)</u>	<u>\$ 392,798</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Technical Services		
Salaries	\$ 324,001	\$ 336,480
Employee benefits	170,212	160,865
Supplies	15,739	19,896
Contract services	17,733	19,020
Repairs and maintenance	23,601	21,754
Insurance	5,291	4,877
Utilities	3,250	3,240
Total Technical Services	<u>559,827</u>	<u>566,132</u>
Treatment		
Salaries	391,344	404,901
Employee benefits	198,750	186,990
Supplies	34,154	36,764
Contract services	28,653	24,524
Repairs and maintenance	149,910	100,451
Insurance	20,526	19,102
Utilities	339,092	268,047
Total Treatment	<u>1,162,429</u>	<u>1,040,779</u>
Collection System		
Salaries	351,212	338,272
Employee benefits	194,892	167,488
Supplies	23,495	29,143
Contract services	3,229	2,218
Repairs and maintenance	124,279	146,074
Insurance	5,748	5,272
Utilities	3,347	3,332
Total Collection System	<u>706,202</u>	<u>691,799</u>
Laboratory Services		
Salaries	123,058	120,276
Employee benefits	62,792	53,838
Supplies	10,108	11,136
Contract services	19,729	23,215
Repairs and maintenance	2,139	2,036
Insurance	1,339	1,266
Utilities	961	992
Total Laboratory Services	<u>220,126</u>	<u>212,759</u>

(Continued)

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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Administrative		
Salaries	\$ 92,761	\$ 104,213
Employee benefits	49,398	46,860
Supplies	15,324	16,385
Contract services	254,653	243,722
Repairs and maintenance	1,907	1,856
Insurance	455	426
Utilities	5,380	5,310
Total Administrative	<u>419,878</u>	<u>418,772</u>
 Total Operating Expenses	 <u><u>\$ 3,068,462</u></u>	 <u><u>\$ 2,930,241</u></u>

See independent auditor's report.

JACKSONVILLE WASTEWATER UTILITY
(A COMPONENT UNIT OF THE CITY OF JACKSONVILLE, ARKANSAS)
SCHEDULE OF BONDED INDEBTEDNESS
DECEMBER 31, 2019

Wastewater Revenue Refunding Bonds, Series 2016A

<u>Year of</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual</u> <u>Requirement</u>
		<u>6/01</u>	<u>12/01</u>	<u>6/01</u>	<u>12/01</u>	
2020	2.500%	\$ -	\$ 370,000	\$ 4,625	\$ 4,625	\$ 379,250

Wastewater Revenue Refunding Bonds, Series 2016B

<u>Year of</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Principal Payable</u>		<u>Interest Payable</u>		<u>Total Annual</u> <u>Requirement</u>
		<u>6/01</u>	<u>12/01</u>	<u>6/01</u>	<u>12/01</u>	
2020	3.750%	\$ -	\$ -	\$ 262,972	\$ 262,972	\$ 525,944
2021	3.750%	-	-	262,972	262,972	525,944
2022	3.750%	-	-	262,972	262,972	525,944
2023	4.000%	-	440,000	262,972	262,972	965,944
2024	4.000%	-	640,000	254,172	254,172	1,148,344
2025	4.000%	-	665,000	241,372	241,372	1,147,744
2026	4.000%	-	695,000	228,072	228,072	1,151,144
2027	4.000%	-	720,000	214,172	214,172	1,148,344
2028	4.000%	-	750,000	199,772	199,772	1,149,544
2029	4.000%	-	780,000	184,772	184,772	1,149,544
2030	4.000%	-	810,000	169,172	169,172	1,148,344
2031	3.500%	-	845,000	152,972	152,972	1,150,944
2032	3.500%	-	880,000	136,072	136,072	1,152,144
2033	3.500%	-	910,000	120,672	120,672	1,151,344
2034	3.500%	-	940,000	104,747	104,747	1,149,494
2035	3.500%	-	975,000	88,297	88,297	1,151,594
2036	3.500%	-	1,010,000	71,234	71,234	1,152,468
2037	3.625%	-	1,045,000	53,559	53,559	1,152,118
2038	3.625%	-	1,080,000	34,618	34,618	1,149,236
2039	3.625%	-	830,000	15,043	15,043	860,086
		<u>\$ -</u>	<u>\$ 14,015,000</u>	<u>\$ 3,320,606</u>	<u>\$ 3,320,606</u>	<u>\$ 20,656,212</u>

See independent auditor's report.

**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, 2019, 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 March 27, 2020.

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
March 27, 2020