

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020*

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WATER AND SEWER SYSTEM ENTERPRISE FUND
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Independent Auditors' Report

July 19, 2021

Honorable Mayor and Members of City Council
City of Nashville, Arkansas
Water and Sewer System Enterprise Fund
Nashville, Arkansas

We have audited the accompanying financial statements of the business-type activities of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund (System) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 that 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 respective financial position of the business-type activities of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund, are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City that is attributable to the transactions of the Water and Sewer System Enterprise Fund. They do not purport to, and do not present fairly the financial position of the City of Nashville, Arkansas as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7, APERS schedule of the proportionate share of the net pension liability on page 25, and APERS schedule of pension contributions on page 26 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 response 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Nashville Water and Sewer System Enterprise Fund's financial statements. The miscellaneous information required by loan agreement with ANRC on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the miscellaneous information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report on July 19, 2021, on our consideration of Nashville Water Sewer System Enterprise Fund'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 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 Nashville Water Sewer System Enterprise Fund's internal control over financial reporting and compliance.

Wilf & Henderson, P.C.
WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020

Our discussion and analysis of the City of Nashville Water and Sewer System (System) financial performance provides an overview of the System's financial activities for the year ended December 31, 2020. Please read it in conjunction with the basic financial statements and the accompanying notes to the financial statements.

Financial Highlights

- The System maintained an Unrestricted Net Position balance of \$347,238 at December 31, 2020. Unrestricted Net Position represents the net balance accumulated by the System above the amount of Net Investment in Capital Assets and the amount for Restricted Net Position (restricted as a result of constraints imposed by grantors, contributors, or by laws and regulations).
- The total of Net Investment in Capital Assets (after subtracting out debt owed on capital assets) was \$6,045,991 at December 31, 2020.
- The System had \$10,127,846 of bonded debt and note payables outstanding at December 31, 2020.
- The most significant continuing revenue sources for the System consisted of \$2,646,872 of water, sewer and related services for the year ended December 31, 2020.

Overview of the Financial Statements

The annual financial report consists of two parts: Management's Discussion and Analysis and the Financial Section report. The Financial Section also includes notes that explain in more detail some of the information in the financial statements.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position (Pages 8 and 9) provide long-term and short-term information about the System's overall financial status. The Statement of Net Position includes all assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). This financial statement reports net position and how it has changed. Net position – the difference between assets and liabilities – is one way to measure health, or position. Over time, increases or decreases in net position is an indicator of whether the System's financial health is improving or deteriorating, respectively. The Statement of Net Position also provides the basis for computing rate of return, evaluating the capital structure and assessing liquidity and flexibility. You will need to consider other nonfinancial factors, however, to assess the overall health.

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Position. This statement measures the success of operations over the past year and can be used to determine whether operations have successfully recovered all System costs through user fees and other charges, profitability, and credit worthiness.

**CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in cash balance during the reporting period.

Our auditor has provided assurance in the independent auditors' report that the financial statements are fairly stated.

Financial Analysis as a Whole

Net position decreased by \$(400,970) as a result of this year's operations. The balance in net position represents the accumulated results of all past years' operations.

Statement of Net Position

A summary of the Statement of Net Position is presented in the table below. The format allows the reader to view the overall financial position of the System.

**City of Nashville Water and Sewer System
Condensed Statement of Net Position**

	2020	2019	Dollar Change	Percent Change
Current assets (unrestricted)	\$ 1,245,541	\$ 1,377,003	\$ (131,462)	-9.55%
Restricted assets	1,072,762	1,013,142	59,620	5.88%
Capital assets	16,193,284	15,818,339	374,945	2.37%
Other assets	1,197	1,197	-	0.00%
Total Assets	<u>18,512,784</u>	<u>18,209,681</u>	<u>303,103</u>	<u>1.66%</u>
Deferred outflows related to APERS	<u>170,151</u>	<u>129,713</u>	<u>40,438</u>	<u>31.17%</u>
Current liabilities (payable from current assets)	190,618	157,285	33,333	21.19%
Current liabilities (payable from restricted assets)	500,787	463,683	37,104	8.00%
Noncurrent liabilities - bonded debt	9,801,010	9,233,997	567,013	6.14%
Noncurrent liabilities - net pension liability	909,994	775,640	134,354	17.32%
Total Liabilities	<u>11,402,409</u>	<u>10,630,605</u>	<u>771,804</u>	<u>7.26%</u>
Deferred inflows related to APERS	<u>37,925</u>	<u>65,220</u>	<u>(27,295)</u>	<u>-41.85%</u>
Net investment in capital assets	6,045,991	6,289,381	(243,390)	-3.87%
Restricted	849,372	797,462	51,910	6.51%
Unrestricted	347,238	556,728	(209,490)	-37.63%
Total Net Position	<u>\$ 7,242,601</u>	<u>\$ 7,643,571</u>	<u>\$ (400,970)</u>	<u>-5.25%</u>

CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020

The largest category of net position is Net Investment in Capital Assets, and comprises 83.48% of Net Position. This category totaling \$6,045,991 reflects the total invested in capital assets (land, buildings, equipment, water and sewer system improvements, etc.) net of any related debt used to acquire capital assets. These capital assets are used to provide services to citizens and do not represent resource available for future spending. The System's investment in its capital assets is reported net of related debt. Related long-term liabilities outstanding at December 31, 2020 totaled \$10,127,846. The current portion of the long-term debt of \$326,836 is reflected in current liabilities (payable from restricted assets). It should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

The second category of net position, Restricted Net Position, represents net position that is subject to external restrictions on how they may be used. Restricted Net Position total \$849,372.

The third category of net position, Unrestricted Net Position, represents net position that is not subject to external restrictions on how they may be used. Unrestricted Net Position total \$347,238.

At the end of the current year, the System was able to report positive balances in all three categories of net position, and for the System as a whole.

Changes in Fund Net Position

While the Statement of Net Position shows the financial position, the Statement of Revenues, Expenses and Changes in Fund Net Position shows the changes in net position. As can be seen in the table below, the System had a decrease in net position of \$(400,970).

A summary of the Statement of Revenues, Expenses and Changes in Fund Net Position is presented in the table below.

City of Nashville Water and Sewer System
Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

	2020	2019	Dollar Change	Percent Change
Water, sewer & other service charges fees	\$ 2,646,872	\$ 2,606,778	\$ 40,094	1.54%
Total Operating Revenues	<u>2,646,872</u>	<u>2,606,778</u>	<u>40,094</u>	<u>1.54%</u>
Depreciation expense	613,345	609,753	3,592	0.59%
Other operating expenses	2,463,088	2,009,904	453,184	22.55%
Total Operating Expenses	<u>3,076,433</u>	<u>2,619,657</u>	<u>456,776</u>	<u>17.44%</u>
Operating income (loss)	(429,561)	(12,879)	(416,682)	-3235.36%
Nonoperating revenues	26,461	157,643	(131,182)	-83.21%
Nonoperating expenses	<u>(282,370)</u>	<u>(289,446)</u>	<u>7,076</u>	<u>2.44%</u>
Income (loss) before contributions & transfers	(685,470)	(144,682)	(540,788)	-373.78%
Operating transfers in (out), net	<u>284,500</u>	<u>(54,611)</u>	<u>339,111</u>	<u>620.96%</u>
Increase (Decrease) Change in Net Position	(400,970)	(199,293)	(201,677)	-101.20%
Net Position - Beginning of Year	7,643,571	7,842,864	(199,293)	-2.54%
Net Position - End of Year	<u>\$ 7,242,601</u>	<u>\$ 7,643,571</u>	<u>\$ (400,970)</u>	<u>-5.25%</u>

**CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The decrease in net position was primarily due to the fact that the City spent \$405,254 on repairs from storm damage. The City had transferred \$211,500 from the General Fund to help subsidize these expenditures.

Capital Assets and Long-Term Debt

Capital Assets

The cost of property, plant and equipment, net of accumulated depreciation as of December 31, 2020 was \$16,193,284. Capital assets additions during the current fiscal year totaled \$988,290. More detailed information about capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

At year-end the System had \$10,127,846 of bonds and notes outstanding which is a net increase of \$598,888 from the previous year. The increase in debt at year-end was due to the City executing a bond agreement with ANRC for \$1,100,000. The System had only drawn \$490,949 of loan proceeds as of fiscal year-end. More detailed information about long-term liabilities is presented in Notes 6 of the financial statements.

Economic Factors and Next Year's Budgets

Water usage remained the same in 2020, as 2019, due to above average rainfall. We anticipate usage to return to normal in 2021. The wastewater plant and water treatment plant are in compliance with their respective permits. The \$1.1 million dollar water plant project will be completed in late July 2021. There are several projects under consideration due to the System being granted funds from the COVID Relief Act.

Requests for Information

This financial report is designed to provide a general overview of the System's finances and to demonstrate the System's accountability. If you have questions regarding this report or need additional information, contact the System at 426 North Main, Nashville, Arkansas, 71852. The phone number for the System is (870) 845-7400.

***CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
FINANCIAL STATEMENTS***

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF NET POSITION
DECEMBER 31, 2020*

Current Assets - Unrestricted	
Cash and cash equivalents	\$ 77,626
Certificates of deposit	807,985
Receivables, net of allowance for uncollectible accounts	
Water and sewer customers	314,380
Due from other funds	85
Inventories of materials and supplies	45,465
Total Current Assets - Unrestricted	<u>1,245,541</u>
Restricted Assets	
Cash and cash equivalents	436,520
Certificates of deposit	636,242
Total Restricted Assets	<u>1,072,762</u>
Property, Plant and Equipment	
Property, plant and equipment, net of accumulated depreciation	<u>16,193,284</u>
Other Assets	
Miscellaneous assets	<u>1,197</u>
Total Assets	<u>\$ 18,512,784</u>
Deferred Outflows of Resources	
Deferred Outflows Related to APERS	<u>\$ 170,151</u>
Current Liabilities (payable from current assets)	
Accounts payable	36,065
Accrued payroll and other liabilities	124,276
Due to other funds	10,830
Retainage payable	19,447
Total Current Liabilities (payable from current assets)	<u>190,618</u>
Current Liabilities (payable from restricted assets)	
Customer deposits	146,426
Accrued interest payable	27,525
Current portion of long-term debt	326,836
Total Current Liabilities (payable from restricted assets)	<u>500,787</u>
Long-Term Liabilities	
Notes and bonds payable, net of unamortized discount	9,801,010
Net Pension Liability Related to APERS	909,994
Total Long-Term Liabilities	<u>10,711,004</u>
Total Liabilities	<u>\$ 11,402,409</u>
Deferred Inflows of Resources	
Deferred Inflows Related to APERS	<u>\$ 37,925</u>
Net Position	
Net Investment in Capital Assets	6,045,990.91
Restricted for Capital Maintenance and Acquisition	350,209
Restricted for Debt Service	499,163
Unrestricted	347,238
Total Net Position	<u>\$ 7,242,601</u>

The accompanying notes are an integral part of these statements.

CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

Operating Revenues	
Water revenues	\$ 1,980,733
Sewer revenues	590,532
Other service charges and fees	75,607
Total Operating Revenues	<u><u>2,646,872</u></u>
Operating Expenses	
Salaries and wages	589,516
Depreciation expense	613,345
Materials and supplies	102,783
Purification	344,881
Utilities	286,862
Telephone and internet	22,433
Repairs and maintenance	120,574
Employees health insurance	106,789
Employees retirement benefits	156,129
Payroll taxes	45,604
Workers compensation	19,459
Insurance - other	55,012
Professional services and engineering fees	51,878
Gas and oil	12,514
Vehicle allowance	7,400
Computer expenses	19,813
Testing, monitoring and fees	48,269
Storm damage expenses	405,254
Other operating expenses	67,918
Total Operating Expenses	<u><u>3,076,433</u></u>
Operating Income (Loss)	<u><u>(429,561)</u></u>
Non-Operating Revenues (Expenses)	
Interest revenue	26,461
Bond and note interest expense and fees	(282,370)
Total Non-Operating Revenues (Expenses)	<u><u>(255,909)</u></u>
Income (loss) before contributions and transfers	<u><u>(685,470)</u></u>
Transfers in (out) to/ from other funds, net	284,500
Change in Net Position - Increase (Decrease)	<u><u>(400,970)</u></u>
Net Position - Beginning of Year	<u><u>7,643,571</u></u>
Net Position - End of Year	<u><u>\$ 7,242,601</u></u>

The accompanying notes are an integral part of these statements.

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020*

Cash Flows from Operating Activities:	
Cash received from providing services	\$ 2,626,615
Cash paid to employees	(511,009)
Cash paid to suppliers	(1,853,983)
Cash Provided (Used) by Operating Activities	<u>261,623</u>
Cash Flows from Noncapital Financing Activities:	
Transfer in (out) to / from other funds	284,500
Cash Provided (Used) by Noncapital Financing Activities	<u>284,500</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(968,843)
Proceeds from ANRC loan and note	882,879
Bonds and notes principal payments	(283,991)
Bond and loan interest expense and fees	(281,367)
Cash Provided (Used) by Capital and Related Financing Activities	<u>(651,322)</u>
Cash Flows from Investing Activities:	
Interest income	26,461
Reinvested in investment - certificates of deposit	(16,457)
Cash Provided (Used) by Investing Activities	<u>10,004</u>
Increase (Decrease) in Cash and Cash Equivalents	(95,195)
Cash and Cash Equivalents at Beginning of Year	<u>609,341</u>
Cash and Cash Equivalents at End of Year	<u>\$ 514,146</u>
Cash Flows from Operating Activities:	
Operating income (loss)	\$ (429,561)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	613,345
Changes in assets & deferred outflows & liabilities & deferred inflows:	
Decrease (increase) in receivables	(20,257)
Decrease (increase) in inventory	5,501
Decrease (increase) in prepaid insurance	6,518
Decrease (increase) in due from other funds	1,344
Increase (decrease) in accounts payable - trade	16,731
Increase (decrease) in accrued payroll and other liabilities	11,886
Increase (decrease) in due to other funds	(14,731)
Increase (decrease) in customer deposits liability	4,226
Increase (decrease) in outflows, inflows and liabilities APERS	66,621
Cash Provided (Used) by Operating Activities	<u>\$ 261,623</u>

The accompanying notes are an integral part of these statements.

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020*

Note 1 – Summary of Accounting Policies

The City of Nashville, Arkansas is a municipality duly incorporated under the laws of the State of Arkansas and located in Howard County, Arkansas. The city operates under a council-mayor form of government and provides the following services: public safety (police and fire), highways and streets, water utility service, sanitation, culture-recreation, public improvements, planning and zoning, and general administrative services.

The financial statements presented herein include only the funds and accounts relevant to operation of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund (System). They are not intended to present fairly the financial position and results of operations of the City of Nashville, Arkansas, as a whole entity.

The accounting and reporting policies of the Water and Sewer System Enterprise Fund relating to the fund included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the System are described below.

Basis of Presentation

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position display information about only the Water and Sewer System Enterprise Fund. The accounts of the System are organized on the basis of funds, each of which is considered to be a separate accounting entity. The transactions of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses. The various funds are combined in the financial statements in this report as one fund type, a proprietary fund.

Proprietary Fund Type

Proprietary Funds are accounted for on a flow of economic resources measurement focus. The accounting objectives are a determination of net income, financial position and changes in cash flow. All assets and liabilities associated with a Proprietary Fund's activities are included on its balance sheet. The following is the System's Proprietary Fund type:

Enterprise Fund - The Enterprise Fund is used for activities which are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Water and Sewer System Enterprise Fund is operated as a self-sustaining utility of the City of Nashville, Arkansas.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

An enterprise fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled water and sewer utility service receivables are recorded at year-end.

*CITY OF NASHVILLE, ARKANSAS
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Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer System Enterprise Fund also recognizes the portion of tap fees intended to recover current costs (e.g. labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Budgets and Budgetary Accounting

The System follows Arkansas Statutes in establishing the budgetary data reflected in the financial statements:

Prior to the December meeting of the City Council, the Mayor, City Clerk and City Business Manager prepare the proposed budget for the following year. At the December meeting of the City Council, the respective budgets are discussed. If there are no amendments or changes requiring additional attention, the proposed budgets are ratified to facilitate the distribution of the budgets to the various regulatory agencies.

The City Council is authorized to transfer budgeted amounts between departments within any fund. Any revision that alters the total expenditures of any fund may be approved by the City council except, (1) that tax levies for specific purposes may not be diverted to another purpose, (2) appropriated funds may not be diverted where any creditor would be prejudiced thereby, and (3) water and sewer revenue may not be diverted where it is in violation of the debt agreements.

Formal budgetary integration is employed as a management control device for the Water and Sewer Enterprise Fund. Although state law requires that annual budgets be adopted for proprietary funds, there is no state requirement to report budget versus actual data.

Statement of Cash Flows

For purposes of the statement of cash flows, the System considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Assets

Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first and then unrestricted resources as they are needed.

Fair Values of Financial Instruments

The System estimates that the fair value of all financial instruments at December 31, 2020 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The carrying amounts approximate fair values because of the short maturities of those instruments.

Bad Debt Expense

The System uses the allowance method of recognizing uncollectible accounts. The estimated amount is based on receivables written off in prior years.

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020*

Inventories

Inventories are valued at lower of cost or market, using the first-in, first-out method. Materials and supplies are considered as expenses when purchased. Significant inventory amounts are recorded at year end.

Bond Issuance Costs and Bond Discount Amortization

Bond issuance costs are expensed in the year the bonds are issued. Bond discount amortization on the revenue bonds are capitalized and amortized over the term of the bond issue using the bonds interest method. The bond discount is accounted for as an adjustment of interest yield. The discount is offset against the related debt and amortized to debt interest expense.

Property, Plant and Equipment

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation is provided in the enterprise fund in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

<u>Asset Type</u>	<u>Useful Lives</u>
Treatment plant and reservoirs	50 years
Mains and hydrants	50 years
Meters	7-15 years
Office furniture and equipment	5-10 years
Sewer collectors, inspectors and outfalls	50 years
Sewer plant	50 years
Sewer additions	25-50 years
Water lines and transmissions	50 years

Compensated Absences

The System’s policy is to pay employees (other than uniformed police) for unused sick leave upon retirement or resignation provided the employee has accumulated at least sixty days leave. The System limits payments to a maximum of ninety days. Accumulated sick leave is paid at the employee’s regular rate of pay at the time of separation from service. The System uses the vesting method to calculate the sick leave liability. Employees are not allowed to accumulate vacation past the anniversary date of employment. The Council Members voted to amend the policy on December 18, 2012. The amended policy eliminates the cash-out option. This amended policy is effective for all new hires. Any unused vacation pay at year-end is recorded as a current liability.

Equity Classifications

Net position represents the difference between assets and liabilities. The System reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyers of the System’s bonds. Restricted net position is reduced by liabilities related to the restricted assets.

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Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the System.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, management applies unrestricted net position first, unless a determination is made to use restricted net position. The System's policy concerning which to apply first varies with the intended use and legal requirements. Management typically makes this decision on a transactional basis at the incurrence of the expenditure.

Pensions

In the proprietary fund types in the fund financial statement, 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 (APERS) and additions to/deductions from APERS's Fiduciary Net Position have been determined on the same basis as they are reported by APERS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

GASB Statement 68, *Accounting and Financial Reporting for Pensions*, issued June 2012 was adopted for the year ending December 31, 2015. The System participates in the Arkansas Public Employees Retirement System (APERS). This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

GASB Statement 68 requires the employer to report the net pension asset or liability, pension expense, and related deferred inflows and outflows of resources associated with providing retirement benefits to their employees and former employees in their basic financial statements. GASB 68 is allocated by percentage of contributions to APERS. The percentage for fiscal year 2020 is 30.88%. This statement required governmental entities to record the net pension asset or liability and the related outflows and inflows retroactively.

Other Postemployment Benefits

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015 was adopted for the year ending December 31, 2018. The System participates in the APERS Other Postemployment Benefits plan. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Because the OPEB calculated amounts are immaterial for the System, these amounts are not recorded in the financial statements.

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Income Taxes

The System is a political subdivision of the State of Arkansas and is exempt for income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported and disclosures. Accordingly, actual results could differ from those estimates.

Certain Disclosures Related to Debt

GASB Statement 88, Certain Disclosure Related to Debt, Including Direct Borrowing and Placements

The primary objective of this statement is to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with financial-related consequences, significant termination events with finance-related consequences and significant subjective acceleration clauses.

For notes to the financial statements related to debt, this Statement also requires existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Note 2 – Deposits and Investments

System Policies and Legal and Contractual Provisions Governing Deposits

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the System limits investments to Obligations of the United States or its agencies and instrumentalities and certificates of deposits.

Custodial Credit Risk for Investments - To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the System requires counterparties to register the securities in the name of the System and hand them over to the System or its designated agent. This includes securities in securities lending transactions. All of the securities are in the System's name and held by the System or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the System diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk - To limit the risk of changes in interest rates will adversely affect the fair value of investments; the System requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

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Foreign Currency Risk for Investments - The System limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currency.

The System's deposits at all financial institutions at December 31, 2020 were fully insured by federal depository insurance and investment securities pledged as collateral.

Note 3 – Restricted Accounts

The System has established restricted accounts for four reasons – to satisfy certain covenants in debt agreements, to comply with the City Council's desire to create reserves for future capital asset replacement, future debt requirements and for customer meter deposits. The debt covenants require the creation of accounts (separate from the System's operating bank accounts) for the purpose of debt service and asset replacement. The covenants define the manner of account accumulation and allowable expenditures from the reserved accounts. Restricted accounts at December 31, 2020 are as follows:

	Balance 12/31/2020
Customer Meter Deposits	\$ 195,865
Capital Acquisition Reserves	49,784
Bond Depreciation Reserves	300,425
Bond Debt Reserves, Series 1996A	100,565
Bond Debt Reserves, Series 2003	200,552
Bond Debt Reserves, USDA Loan	179,954
Bond Payment Fund, Series 2003	45,617
 Total Restricted Cash, Cash Equivalent and Certificates of Deposit	 \$ 1,072,762

Note 4 – Receivables, Water and Sewer Customers

The System reads water meters at various times during the month and issues bills at the end of the month. As a result, a portion of water and sewer service has not been billed as of December 31, 2020.

Water and Sewer customer receivables, net of allowance for uncollectible accounts, at December 31, 2020 consist of the following:

	Balance 12/31/2020
Billed but unpaid	\$ 209,445
Earned but unbilled and unpaid	104,935
	\$ 314,380

The balance of allowance for uncollectible accounts at December 31, 2020 is \$30,937.

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Note 5 – Property, Plant and Equipment

The following is a summary of property, plant and equipment for the years ended December 31, 2020:

	Balance January 1, 2020	Additions	Disposals / Reclassifications	Balance December 31, 2020
Sewer system	\$ 11,034,584	\$ 29,711	\$ -	\$ 11,064,295
Water system	13,275,892	447,532	-	13,723,424
Furniture and equipment	218,331	4,978	-	223,309
Sewer pond	1,053,363	-	(492)	1,052,871
Vehicles	279,023	-	-	279,023
Buildings	431,019	-	-	431,019
Real estate	147,290	-	-	147,290
Construction in process	3,600	506,069	-	509,669
Total at cost	26,443,102	988,290	(492)	27,430,900
Less accumulated depreciation/amortization	(10,624,763)	(613,345)	492	(11,237,616)
Total capital assets, net	<u>\$ 15,818,339</u>	<u>\$ 374,945</u>	<u>\$ -</u>	<u>\$ 16,193,284</u>

During the year ended December 31, 2020, the System made various capital improvements and equipment purchases totaling \$482,221. This included extension lines and improvements to the water system, new radio meters, sewer plant Wi-Fi equipment, and sewer plant improvements.

In October of 2020, the System signed a contract with RBIS, Inc. for water treatment plant improvements in the amount of \$694,225. Amendments to the contract totaled \$221,440. In fiscal year 2020, the System paid \$446,623 of the total contract price. The System paid \$43,771 for engineering costs associated with the project. The System also paid \$15,675 for costs associated with preparing land for improvements.

Depreciation expense totaled \$613,345 for the year ended December 31, 2020.

Note 6 – Bonds and Notes Payable

The 2003 Soil and Water, 2019 ANRC, 2020 ANRC, and USDA debt issues are payable solely from net revenues of the Water and Sewer System. Each bond issue contains an option allowing bonds to be called in inverse numerical order for redemption prior to maturity. These issues also contain covenants that must be met prior to the issuance of any other revenue bonds on parity with those then outstanding. The System has restricted assets and made the required debt payments to be in compliance with the debt covenants as of and for the year ended December 31, 2020.

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The System had following debt outstanding from direct borrowing as of December 31, 2020:

	ANRC Note *	2003 Soil & Water	USDA Loan	ANRC Note	ANRC Note
Original Balance	\$ 403,374	\$ 5,000,000	\$ 6,870,000	\$ 175,100	\$ 1,100,000
Maturity date	2031	2035	2053	2037	2041
Range of interest rates	0.00%	2.50%	2.75%	2.00%	0.75%
Range of servicing fee	0.50%	1.00%	0.00%	0.00%	1.00%
Balance at 12/31/20	\$ 403,374	\$ 3,055,878	\$ 6,065,904	\$ 111,741	\$ 490,949
Payment dates	April/Oct	April/Oct	Monthly	Annual	April/Oct

* This loan was started in fiscal year 2019 but the draws were not completed until 2020.

In April 2020, the System has executed a bond agreement with ANRC for \$1,100,000. Principal shall be due and payable through April 15, 2041. The System had only drawn \$490,949 of loan proceeds at December 31, 2020. The System has committed for the water treatment plant improvements for the remaining balance.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities:					
Bonds Payable 2003 Soil & Water	3,215,261	-	(159,383)	3,055,878	165,010
ANRC Note	11,444	391,930	-	403,374	12,440
USDA Loan	6,185,038	-	(119,134)	6,065,904	122,439
ANRC Note	117,215	-	(5,474)	111,741	5,583
ANRC Note	-	490,949	-	490,949	21,364
Total	<u>\$ 9,528,958</u>	<u>\$ 882,879</u>	<u>\$ (283,991)</u>	<u>\$ 10,127,846</u>	<u>\$ 326,836</u>

Interest and fees expensed on bonds and notes payable totaled \$282,370 for the year ended December 31, 2020.

Payment requirements for the next five years and thereafter for all bonds and notes outstanding as of December 31, 2020 are as follows:

Year Ended	Principal	Interest & Fees	Total
2021	326,836	285,447	612,283
2022	386,196	284,287	670,483
2023	397,141	273,671	670,812
2024	407,994	263,154	671,148
2025	420,058	251,436	671,494
2026-2030	2,287,635	1,075,328	3,362,963
2031-2035	2,311,395	736,446	3,047,841
2036-2040	1,315,801	481,496	1,797,297
2041-2045	1,155,321	318,269	1,473,590
2046-2050	1,285,713	152,907	1,438,620
2051-2053	442,807	10,185	452,992
Remaining Balance on Loan	(609,051)	-	(609,051)
Total	<u>\$ 10,127,846</u>	<u>\$ 4,132,626</u>	<u>\$ 14,260,472</u>

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Note 7 – Net Position

Net position net investment in capital assets represents the total of property, plant and equipment, net of accumulated depreciation, net of accumulated amortization less the long- term portion of long-term debt. Net position restricted for debt service represents restricted assets that have been restricted by bond covenants less the current portion of long-term debt and less accrued interest payable. Net position restricted for capital maintenance and acquisition represents restricted assets that have been restricted by bond or note covenants. Unrestricted net position is the remaining balance after restricted net positions are segregated.

Note 8 – Interfund Accounts and Transfers

Interfund receivables and payables were as follows:

	Balance 12/31/2020	
<u>Interfund Balances</u>	Interfund Receivable	Interfund Payables
Due from General Fund	\$ 85	\$ -
Due to Street Fund	-	3,873
Due to Sanitation Fund	-	6,957
	\$ 85	\$ 10,830

The interfund balances between the General Fund and the Water Sewer Fund at December 31, 2020 were primarily prior year transactions not cleared during the current year and will be repaid currently.

Interfund transfers were as follows:

	Balance 12/31/2020		
<u>Interfund Transfers</u>	Interfund Transfer-In	Interfund Transfer-Out	Net
Transfer in / out to General Fund	\$ 211,500	\$ -	\$ 211,500
Transfer in / out from Franchise Fund	123,000	-	123,000
Transfer out to Street Fund	-	(50,000)	(50,000)
	\$ 334,500	\$ (50,000)	\$ 284,500

Funds were transferred from General Fund for repairs made to the spillway. The Franchise Fund transferred funds in for water and sewer cash flow and the Water Sewer Fund transferred funds out when cash funds became available. Funds were transferred to Street Fund for work performed on bridge from flood damage.

Note 9 – Retirement Pension Plan

Plan Description: The City of Nashville, Arkansas elected to participate in Arkansas Public Employees Retirement System (APERS). APERS is a cost sharing, multiple employer defined benefit pension plan established by authority of the Arkansas General Assembly with the passage of Act 177 of 1957 to provide retirement benefits for eligible employees and elected officials of state and local government entities in Arkansas. The City participated in the non-contributory retirement plan where only employers contribute. Act 2084, enacted by the 2005 General Assembly, directed APERS to establish a new contributory retirement provision that became effective July 1, 2005. All covered employees first hired on or after July 1, 2005, contribute 5% of their salary to the plan. Employees hired before June 30, 2005, who were in the non-contributory system, were given the option to join the new contributory system by

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December 31, 2005. Non-contributory members who did not join the new contributory program remain non-contributory members.

Pension Plan Fiduciary Net Position: The actuarial accrued liability at June 30, 2020, for the APERS, as a whole was \$11,633 million. The APERS actuarial value of assets was \$8,769 million leaving unfunded actuarial accrued liability of \$2,864 million. The actuarial accrued liability at June 30, 2019, for the APERS, as a whole was \$11,246 million. The APERS actuarial value of assets was \$8,833 million leaving unfunded actuarial accrued liability of \$2,413 million. APERS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the APERS, One Union National Plaza, Suite 400, 124 West Capitol, Little Rock, Arkansas 72201-1070.

Benefits Provided: Generally, municipal employees who are hired to work more than 90 consecutive calendar days in a fiscal year and who work at least 80 hours per month must be enrolled and reported to APERS. Members are eligible for full benefits (a) after either 65 with 5 years of service or (b) 28 years of actual service, regardless of age. The normal retirement benefit amount, paid on a monthly basis, is determined by the member's final average salary and the number of years of service. A member may retire with a reduced benefit after age 55 with 5 years of service; or any age with 25 years of actual service, but less than 28 years of actual service. APERS also provide disability and survivor benefits.

Contributions: Contribution provisions applicable to the participating employers are established by the APERS Board of Trustees and shall be based on the actuary's determination of the rate required to fund the Plan. The employees were enrolled as non-contributory members prior to June 30, 2005. For the valuation date June 30, 2020, the actuary used the entry age normal actuarial cost method and the level percentage of payroll, closed amortization method with a 25-year remaining amortization period. The asset valuation method used was the 4-year smooth market with 25% corridor. These were the actuarial assumptions: investment rate of return 7.15%; projected salary increases 3.25% to 9.85%; wage inflation rate 3.25%; price inflation 2.5% and post-retirement cost-of-living adjustment 3.0% annual compounded increase.

For the valuation date June 30, 2020, the actuary used the entry age normal cost actuarial cost method and the level percent of payroll, closed amortization method with a 25-year closed remaining amortization period. The asset valuation method used was the 4-year smooth market with 25% corridor. These were the actuarial assumptions: discount rate 7.50%; investment rate of return 7.50%; projected salary increases 3.25% to 9.85%; wage inflation rate 3.25%; price inflation rate 2.50% and post retirement cost of living adjustment 3.00% annual compounded increase, mortality rate table RP-2000 Combined Healthy, projected to 2020 using projection scale BB, set forward two years for males and one year for females.

All covered employees first hired on or after July 1, 2005, contribute 5% of their salary to the plan. Employees hired before June 30, 2005, who were in the non-contributory system, were given the option to join the new contributory system by December 31, 2005. Non-contributory members who did not join the new contributory program remain non-contributory members.

The municipalities contributed 15.32% of employees' earnings for the annual period beginning July 1, 2020 through June 30, 2021. The municipalities contributed 15.32% of employees' earnings for the annual period beginning July 1, 2019 through June 30, 2020. The contribution rate is set by the Legislature and is subject to change. All covered employees first hired on or after July 1, 2005, contributed 5% of their salary to the plan. Employees hired before June 30, 2005 remained non-contributory members.

During the year ended December 31, 2020, the System contributed \$90,808, which represents 15.32% of covered employees' earnings totaling \$592,740. Covered employees first hired on or after July 1, 2005 contributed \$17,979, which represented 5% of their salary to the plan. During the year ended December 31, 2019, the System contributed \$92,107, which represents 15.32% of covered employees' earnings totaling \$601,220. Covered employees first hired on or after July 1, 2005 contributed \$17,060, which represented 5% of their salary to the plan.

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Single 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 projected of cash flows used to determine this single discount rate assumed the plan member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between actually determined contribution rates and the member rate. Based on these assumptions, the pension's 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.

Discount Rate Sensitivity Analysis. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following represents the plan's net pension liability, calculated using a single discount rate of 7.15%, as well as what the plan's net pension liability would be if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.15%) in measuring the Net Pension Liability as of June 30, 2020.

	1% Decrease in Discount Rate (6.15%)	Current Discount Rate (7.15%)	1% Increase in Discount Rate (8.15%)
System's proportionate share of the net pension liability	1,385,989	909,994	517,191

Long-Term Expected Return on Plan Assets. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates 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 for the 10-year period from 2020 to 2029 were based upon capital market assumptions provided by plan's investment consultant(s).

For each major class that is included in the pensions plan's current asset allocation as of June 30, 2020 are summarized in the following table:

Asset Allocation	Target	Long-Term Expected Real Rate of Return
Broad Domestic Equity	37%	6.22%
International Equity	24%	6.69%
Real Assets	16%	4.81%
Absolute Return	5%	3.05%
Domestic Fixed	18%	0.57%
Total	<u>100%</u>	
Total Real Rate of Return	4.71%	
Plus: Price Inflation - Actuary's Assumption	<u>2.50%</u>	
Net Expected Return	<u>7.21%</u>	

Long-Term Municipal Bond Rate. The long-term municipal bond rate used was 2.45%. Source: Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's Index "20 Year Municipal GO AA Index" as of June 30, 2020. In describing this index, Fidelity notes that the municipal curves are constructed using option-adjusted analytics of a diverse population of over 10,000 tax-exempt securities.

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

At December 31, 2020, the System reported a pension liability of \$909,994 for its proportionate share of the APERS's net pension liability.

The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period July 1, 2019 thru June 30, 2020. Actual employer contributions totaled \$90,808 for the measurement period ended June 30, 2020.

At June 30, 2020 the System's employer's proportion of the collective net pension liability was 0.03037859%.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was no change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. The contribution rate for employers continued at 15.32% for the annual period beginning July 1, 2020 through June 30, 2021.

For the year ended December 31, 2020, the System recognized pension expense of \$156,129. The pension contributions paid to APERS subsequent to the measurement date of June 30, 2020 are reported as deferred charges of \$44,754.

At December 31, 2020, the System reported its proportionate share of the APERS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 12,081	\$ 602
Changes in actuarial assumptions	11,401	15,592
Difference between projected and actual investment earnings	96,289	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,626	21,731
Contributions paid to APERS subsequent to the measurement date (to be calculated by employer)	44,754	-
Total	\$ 170,151	\$ 37,925

In accordance with GASB Statement No. 68, the recognition period for outflows (inflows) of resources from the net difference between projected and actual earnings on the pension plan investments was 5 years. All other deferred outflows (inflows) of resources related to pensions were amortized over the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan. For fiscal year 2016, it was 4.4487 years; for fiscal year 2017, it was 4.3774 years; and for fiscal year 2018, it was 4.1233 years; and for fiscal year 2019, it was 4.1431 years; and for fiscal year 2020, it was 4.0486 years.

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Note 10 - Risk Financing and Related Insurance Issues

In the normal course of operations, the System is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The System attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 11 – Major Customers

The System has two major customers – Tyson Foods and Nashville Rural Water Public Authority of the State of Arkansas (NRWPA) (discussed in Note 14). At December 31, 2020, Tyson Foods and NRWPA owed the System approximately \$54,056 and \$58,607, respectively for water and sewer services. This represents 18.61% and 20.18%, respectively, of the total \$290,445 billed receivables discussed in Note 4. Approximately the same percentage exists for the unbilled receivables discussed in Note 4. For the year ended December 31, 2020, the System billed Tyson Foods and NRWPA \$722,923 and \$838,344, respectively for water and sewer services. This represents approximately 27.31% and 31.67%, respectively of the total \$2,646,872 water, sewer and other service charges and fees operating revenues for the year ended December 31, 2020.

Note 12 – Credit Risk

The System provides water and sewer services to the residents and commercial entities of the City of Nashville, Arkansas, and is funded by user charges for these services. The System’s ability to meet its obligations is dependent upon economic conditions in the surrounding area.

Note 13 – Compliance with Laws and Regulations

The management of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund is responsible for the System’s compliance with state laws and regulations. Management believes the City of Nashville Water and Sewer System complied, in all material respects, with the applicable provisions of Arkansas Statute annotated 14-58-101, and the Municipal Water and Sewer Department Accounting Law.

Note 14 – Commitments and Contingencies

Agreement - In 1989, the System entered into an agreement with the former Nashville Rural Water Association – currently Nashville Rural Water Public Authority of the State of Arkansas (NRWPA) - whereby the city agreed to sell water to NRWPA. The System warranted that the water would be potable and meet the purity standards established by the Arkansas Department of Health. The agreement states that the quantity of water sold to NRWPA would not exceed 20 million gallons per month. The standard water rate in the agreement is stated as \$6.10 for the first two thousand gallons; \$1.70 per thousand gallons for the next thirteen thousand gallons; \$1.25 per thousand gallons for the next thirty-five thousand gallons and \$0.95 per thousand gallons thereafter. The agreement also provides for a minimum payment of \$3,000 per month after 600 customers have been connected to NRWPA. The contract will expire in 2029. The contract provides for an annual review of water rates based on the cost of operating the System’s water system; however, the cost analysis does not include depreciation recognized on the System’s water system. At December 31, 2020, the rate charged to NRWPA was \$11.02 for the first two thousand gallons; \$2.87 per thousand for the next thirteen thousand gallons; \$2.17 per thousand for the next thirty-five thousand gallons and \$1.76 per thousand gallons thereafter. These rates are identical with other users of the System.

Grant Programs - The System participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the System has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

*CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020*

Note 15 – Subsequent Events

On April 6, 2020, the Governor of the state of Arkansas declared Arkansas in a state of disaster as a result of the COVID-19 pandemic. The Governors of the surrounding states of Texas, Oklahoma and Louisiana have also declared their respective states in a state of disaster as a result of COVID -19 pandemic. In each subsequent month effective through May 30, 2021, declarations have been issued renewing the disaster declaration for the State of Arkansas. The pandemic will most probably have a significant effect on governmental and private entities. The extent of the effect cannot, at this time, be estimated or quantified.

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through July 19, 2021, which is the date the financial statements were available to be issued.

***CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
REQUIRED SUPPLEMENTARY INFORMATION***

*NASHVILLE WATER AND SEWER SYSTEM ENTERPRISE FUND
CITY OF NASHVILLE, ARKANSAS
REQUIRED SUPPLEMENTARY INFORMATION
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
SCHEDULE OF SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 2020*

<u>Plan Year</u>	<u>June 30, 2014</u>	<u>June 30. 2015</u>	<u>June 30. 2016</u>	<u>June 30. 2017</u>	<u>June 30. 2018</u>	<u>June 30. 2019</u>	<u>June 30. 2020</u>
System's Portion of the Net Pension Liability (Asset)	0.02937248%	0.03064579%	0.03198033%	0.03362162%	0.03270591%	0.03122627%	0.03037859%
System's Proportionate Share of the Net Pension Liability (Asset)	\$416,769	\$564,415	\$764,761	\$868,829	\$721,471	\$775,640	\$909,994
System's Covered Employee Payroll	\$521,403	\$549,037	\$579,430	\$605,966	\$612,614	\$597,560	\$592,740
System's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its System's Covered Employee Payroll	79.93%	102.80%	131.99%	143.38%	117.77%	129.80%	153.52%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of June 30

Seven years of data is presented in accordance with GASB 68, Paragraph 138 " The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

*NASHVILLE WATER AND SEWER ENTERPRISE FUND
CITY OF NASHVILLE, ARKANSAS
REQUIRED SUPPLEMENTARY INFORMATION
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
SCHEDULE OF SYSTEM'S CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2020*

Fiscal Year End	2014	2015	2016	2017	2018	2019	2020
Actuarially Determined Contribution	\$77,276	\$80,255	\$84,017	\$87,865	\$91,014	\$92,107	\$90,808
Contributions in relation to the actuarially determined contribution	77,276	80,255	84,017	87,865	91,014	92,107	90,808
Contribution deficiency (excess)	-	-	-	-	-	-	-
System's Covered employee payroll	521,403	549,037	579,430	600,726	605,565	601,220	584,259
Contributions as a percentage of covered employee payroll	14.82%	14.62%	14.50%	14.63%	15.03%	15.32%	15.54%

Note: Information in this schedule has been determined as of the City's most recent fiscal year end.

Seven years of data is presented in accordance with GASB 68, Paragraph 138 " The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Valuation Date: June 30

Notes Actuarially determined contribution rates are calculated as of June 30 and become effective in July 1 - 13 months later.

*NASHVILLE WATER AND SEWER ENTERPRISE FUND
CITY OF NASHVILLE, ARKANSAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (APERS)
FOR THE YEAR ENDED DECEMBER 31, 2020*

Valuation Date: June 30, 2018 (excluding District Judges)
June 30, 2019 (District Judges)

Notes Actuarially determined contribution rates are calculated as of June 30 and become effective July 1 - 13 months later

Methods and assumptions Used to Determine Fiscal Year 2020 Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	26 years (7.6 years for District Judges New Plan / Paid Off Old Plan and 16 years for District Judge Still Paying Old Plan)
Asset Valuation Method	4 year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation and 2.5% price inflation
Salary Increases	3.25% to 9.85% including inflation (3.25% to 6.96% including inflation for District Judges)
Investment Rate of Return	7.15%
Retirement Age	Experienced-based table of rates that are specific to the eligibility condition
Mortality	Based on the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.

***CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
REPORT ON COMPLIANCE AND INTERNAL CONTROL***



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Nashville, Arkansas
Water and Sewer System Enterprise Fund
Nashville, Arkansas

Members of the Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the City of Nashville, Arkansas Water and Sewer System Enterprise Fund (the System) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated July 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

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 System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

July 19, 2021

**CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

I. Summary of the Auditor's Results:

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the Nashville Water Sewer System Enterprise Fund were prepared in accordance with GAAP.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the Nashville Water Sewer System Enterprise Fund were disclosed during the audit.

II. Findings – Financial Statement Audit.

No findings reported.

**CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020**

No prior year audit findings.

***CITY OF NASHVILLE, ARKANSAS
WATER AND SEWER SYSTEM ENTERPRISE FUND
MISCELLANEOUS INFORMATION***

NASHVILLE WATER AND SEWER SYSTEM ENTERPRISE FUND
CITY OF NASHVILLE, ARKANSAS
MISCELLANEOUS INFORMATION REQUIRED BY LOAN AGREEMENT WITH ANRC
FOR THE YEAR ENDED DECEMBER 31, 2020

UNAUDITED

Current System Water Rates:

	2,000 Gallons	\$11.02		(Senior rate \$7.19)
Next	2,001 - 15,000 Gallons	\$2.87	per	1,000 gallons
Next	15,001 -50,000 Gallons	\$2.17	per	1,000 gallons
All over	50,001 Gallons	\$1.76	per	1,000 gallons

Current System Sewer Rates:

First	2,000 Gallons	\$14.27		(Senior rate \$13.70)
Each additional	1,000 Gallons	\$3.04	per	1,000 gallons

Number of Water Users at December 31, 2020 1,984

Number of Sewer Users at December 31, 2020 1,829

Annual billable gallons of water for 2020 2,047,630,000

Annual billable gallons of sewer for 2020 125,935,000

Nashville Water and Sewer System maintains insurance coverage as follows:

System has property coverage through Arkansas Public Entities Risk Management Association

System has vehicle coverage through Arkansas Public Entities Risk Management Association

System has workmen's compensation through Arkansas Public Entities Risk Management Association