

NORTH LITTLE ROCK WASTE WATER UTILITY

FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(With independent auditor's report thereon.)

Table of Contents

	Page
Introduction	1
Independent Auditor's Report	2-4
Required Supplementary Information: Management's Discussion and Analysis	5-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14-31
Required Supplementary Information:	
Budgetary Comparison Schedule	32
Schedule of Changes in the Net Pension Liability and Related Ratios	33
Schedule of Contributions	34
Schedule of Changes in the Other Post-Retirement Benefit Liability and Related Ratios	35
Other Supplementary Information	
Schedule of Operating Expenses	36
Single Audit Section:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37-38
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	39-40
Schedule of Expenditures of Federal Awards	41
Schedule of Findings and Questioned Costs	42-43
Summary Schedule of Prior Audit Findings	44

INTRODUCTION

The North Little Rock Waste Water Utility, hereafter referred to as the “Utility” is pleased to present its financial report for the years ending December 31, 2019 and 2018 developed in compliance with Governmental Accounting Standards.

Mission

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

Summary of Organization

The Utility was established by the North Little Rock City Council in 1962. The City Council appointed a five member commission to oversee its operations. Each commissioner is appointed for a five year period, with any reappointment approved by the City Council. The commission meets in open public session on the second Tuesday of each month. The Utility’s day to day operations are managed by a professional Director with assistance from the senior management. The Utility has no taxing power. Operational and maintenance costs are funded from customer fees and charges. At the end of 2019, the utility provided service to approximately 40,000 customers. The acquisition and construction of capital assets are funded by customer revenues, contributions from developers and sewer improvement districts and from construction loans. The Utility maintains and operates four treatment plants, 74 pump stations and hundreds of miles of sewer lines. As of December 31, 2019, the Utility had 93 full time employees dedicated to providing sewer service to the customer base.

Responsibility and Controls

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

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

Audit Assurance

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of North Little Rock Waste Water Utility (a component unit of the City of North Little Rock, 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 ended December 31, 2019 and 2018, and the related notes to the 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the North Little Rock Waste Water Utility, as of December 31, 2019 and

2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the North Little Rock Waste Water Utility and do not purport to, and do not, present fairly the financial position of the City of North Little Rock, Arkansas, as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents on pages 5 through 10 and 32 through 35 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Little Rock Waste Water Utility's financial statements as a whole. The introductory section, schedule of operating expenses and the schedule of expenditures of federal awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on pages 1, 36 and 41, respectively, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2020 on our consideration of North Little Rock Waste Water Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Little Rock Waste Water Utility, internal control over financial reporting.

May 12, 2020

EGP, PLLC

Certified Public Accountants & Consultants
North Little Rock, Arkansas

EGP

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

Our current rate ordinance was adopted on October 26, 2015 and it includes rate adjustments effective on January 1st of the years 2016 through 2020. The rate of \$17.52 for a minimum usage of 400 cubic feet and \$5.27 per 100 cubic feet of usage after 400 was effective for the January, 2019 usage which was billed in February. The rate which was in effect for the January, 2019 billing for the December, 2018 usage was \$4.88 per 100 cubic feet with a minimum amount of \$17.01 for 400 cubic feet. There is a minimum charge of four 100 cubic feet for all customers.

The Utility was able to increase its cash and certificates of deposit balance by around \$3,000,000 during 2019. The Utility was able to invest excess funds in two new certificates of deposit and add funds to two current certificates of deposit during the year.

The Statement of Net Position as of 12/31/19, includes an insurance receivable. In late October of 2018, there was a fire at the Utility's Faulkner Lake treatment plant location. This fire destroyed five high value pieces of equipment, a large metal building, building contents and inventory items. There was also extensive smoke damage to one office building. As of the end of 2019, the Utility had received \$1,250,000 from its insurance company and the receivable is the additional amount that will be paid by the insurance company for the replacement value of the destroyed property as well as expenses related to clean up.

In May, the Utility suffered flood damage at two of its treatment plants. This flood was declared a major disaster by the federal government on June 8, 2019. The Utility has submitted paperwork to receive up to 75% reimbursement for the damages sustained. The FEMA receivable shown in the Statement of Net Position, is the amount the Utility received after year end but before the 2019 audit was completed. The Utility is hopeful to receive further reimbursement during 2020.

The Utility increased its property value less depreciation by around \$4,900,000 during 2019. This increase was mainly due to construction in progress projects.

The Arkansas Natural Resources Commission approved loan funds from the Arkansas Clean Water State Revolving Loan Fund in the amount of \$30,000,000 on October 15, 2016. The interest rate is 1.25 percent with an annual servicing fee of 1.00 percent. The Utility will pay interest only on the loan funds received until April, 2021 at which time principal payments commence. At the end of December, 2019, the Utility had been disbursed the total amount of \$16,163,031 for this bond issue.

Overview of Annual Financial Report

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

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

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operational, financing and investing activities. This statement presents cash receipt and disbursement information only.

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

The financial statements were prepared by the Utility's staff from its detailed transactions for the years ending December 31, 2019 and 2018. The financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis

The comparative financial statements provide information about the financial activities of the North Little Rock Waste Water Utility. The following information is an analysis of the comparison between the two years presented in the financial statements. The amounts for the year ending December 31, 2017 are also shown for reference purposes.

Statement of Net Position:

This statement indicates that the Utility had an adequate amount of liquid assets as of the end of the year and a reasonable level of unrestricted net position. The increase in current assets between 2019 and 2018 is the result of a higher certificate of deposit and cash balance. The increase in the property value is mainly due to the completion of projects during the year. The other non-current assets include the deferred outflow related to pension account, which decreased from 2018 to 2019. The decrease in current liabilities is due to a lower balance in accounts payable at the end of 2019. The other non-current liability total amount for 2019 includes an amount of \$2,547,471 for the reserve for bio-solid removal. This reserve account was set up to accrue a liability for the cost of removing sludge from the lagoons at all of the treatment plants. The current ratio is an indication of short-term liability and is calculated by dividing current assets by current liabilities. A resulting number greater than one indicates current assets in excess of current needs which can be applied to future periods. The current ratio as of December 31, 2019 was 4.17 and the ratio for 2018 and 2017 was 2.81 and 2.75, respectively. Another ratio which is shown on this statement is the debt utilization ratio which indicates what percentage the total debt is to total assets. This ratio is calculated by dividing total notes payable by total assets and was 32% for the year ended December 31, 2019. The debt utilization ratio for 2018 and 2017 was 31% and 32%, respectively.

Analysis of Statement of Net Position

	2019	2018	2017
Current Assets	\$ 17,001,304	\$ 15,274,710	\$ 10,658,390
Net Property & Equipment	\$ 122,603,668	\$ 117,665,611	\$ 114,351,953
Other Non-Current Assets	\$ 4,797,796	\$ 4,611,331	\$ 3,028,945
Current Liabilities	\$ 4,079,669	\$ 5,438,903	\$ 3,911,339
Bonds Payable	\$ 43,724,708	\$ 40,514,451	\$ 38,552,096
Other Non-Current Liabilities	\$ 5,302,207	\$ 6,116,099	\$ 6,740,914
Invested in Capital Assets, net of related debt	\$ 76,712,415	\$ 75,043,661	\$ 73,371,696
Restricted Net Position	\$ 3,027,798	\$ 1,869,461	\$ 1,323,262
Unrestricted Net Position	\$ 11,555,971	\$ 8,569,077	\$ 4,139,981

Statement of Revenues, Expenses and Changes in Net Position:

For the year ending December 31, 2019, the Utility had an operating income of \$5,949,018 with an overall increase in net position of \$5,813,985 after the non-operating income and expenses were accounted for.

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

	<u>2109</u>	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 22,979,810	\$ 22,091,555	\$ 20,619,957
Operating Expenses	\$ 17,030,792	\$ 15,747,436	\$ 16,562,127
Operating Income	\$ 5,949,018	\$ 6,344,119	\$ 4,057,830
Non-Operating Revenue	\$ 965,831	\$ 1,273,454	\$ 206,258
Non-Operating Expenses	\$ 1,100,864	\$ 970,313	\$ 951,001
Increase in Net Position	<u>\$ 5,813,985</u>	<u>\$ 6,647,260</u>	<u>\$ 3,313,087</u>

Of the total operating revenue for 2019, 96% comes from the rates that the customer base pays for their sewer service.

The operating revenue besides that amount directly from the customer base includes late fees collected on past due billings, tie-on and permit fees, a treatment fee accessed to another city per a court order agreement and plan review charges. The operating revenue increase between 2019 and 2018 is due to the rate change which was effective with the February 2019 billings. There was also a rate increase between 2018 and 2017.

The total operating expense is comprised of labor, depreciation and other. The labor cost includes benefits (insurance, training, matching FICA, and pension) as well as salary. The other operating expenses include supplies, utilities, routine repair and maintenance, outside services and any other non-labor or depreciation expense. The increase in operating expenses between 2019 and 2018 is mainly due to the recording of emergency repairs due to a flood event.

The non-operating revenue for 2019 includes around \$747,000 for insurance proceeds received during the year for the fire damage in 2018 and funds received from FEMA for the flood damage in 2019. In 2018, there was a gain on disposal of assets which related to the fire.

The non-operating expense includes interest expense on all loans and loss on disposal of some assets.

Capital Asset Information:

As of December 31, 2019, the Utility had a property value after accumulated depreciation of \$122,603,668. This amount includes construction in progress as well as fixed assets. The major increase in property value before depreciation was the result of various construction in progress projects both completed and in progress. The construction in progress jobs included various projects for lining and pipe bursting of sewer lines, the addition and remodeling of the collections systems and engineering building and a pump station generator project. The capital asset additions were funded with both bond proceeds and reserves. An amount of \$621,765 in property value was disposed of during the year. Some items were sold and some were removed due to replacement.

Debt Information:

The following schedule shows the debt activity for the year.

SCHEDULE OF BONDS PAYABLE
DECEMBER 31, 2019

DESCRIPTION	1/1/2019 BALANCE	DRAWS RECEIVED	PAYMENTS	12/31/2019 BALANCE
SERIES 2001	\$ 3,419,112.55		\$ 577,426.72	\$ 2,841,685.83
SERIES 2008	\$ 9,941,469.60		\$ 645,757.81	\$ 9,295,711.79
SERIES 2012	\$ 18,475,139.72		\$ 884,315.45	\$17,590,824.27
SERIES 2016	\$ 10,786,227.00	\$ 5,376,804.00	\$ -	\$16,163,031.00
	<u>\$ 42,621,948.87</u>	<u>\$ 5,376,804.00</u>	<u>\$ 2,107,499.98</u>	<u>\$ 45,891,252.89</u>

The payments recorded for the revolving loan funds were the scheduled six-month payments. The Series 2001 loan will be paid off in April, 2024. The Series 2008 loan will be paid off in October, 2031. The Series 2012 loan will be paid off in October, 2035. The Series 2016 loan was issued in October of 2015 for an amount of \$30,000,000. Interest only payments will be made until April, 2021 at which time principal payments will commence until October, 2040.

Budget to Actual Comparison:

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

The total operating revenue was less than the amount budgeted. The actual usage for the customers as a whole was lower than what was budgeted, thus the customer revenue was lower than expected. This decrease was offset some by an increase in late fee income.

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

The actual non-operating revenue amount is higher than the amount budgeted due to a higher interest rate received on the certificates of deposit

The actual non-operating expenses were lower than the amount budgeted due to a lower amount of draws received from the 2016 loan than expected.

Analysis of Planned Activity for 2020:

There are a number of lining, pipe bursting and interceptor projects planned for various locations within the service area. These projects will increase the life of various sized sewer lines and will be funded through the Series 2016 loan and general revenue. There will also be a contract for another Sewer System Evaluation Survey which will be paid out of general revenue. Also, engineering will continue for the Maumelle to White Oak diversion and will also be paid out of general revenue. The Utility's plan is to divert the flow from the Maumelle service area to the White Oak Treatment Plant and decommission the current Maumelle Treatment Plant. Also, the renovation and addition to the collection systems and engineering building will be completed, which is also funded with general revenues.

Contacting the Management:

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

North Little Rock Waste Water Utility
Statement of Net Position
December 31, 2019 and 2018
(See independent auditor's report.)

	2019	2018
<u>Assets and Deferred Outflows of Resources</u>		
Current Assets		
Cash	\$ 3,477,870	3,100,194
Certificates of deposit	9,554,584	8,034,114
Accrued interest receivable	95,791	52,418
Accounts receivable (net of allowance of \$10,000)	2,641,624	2,888,748
FEMA grant receivable	97,761	-
Insurance receivable	1,045,390	1,146,219
Inventory	27,069	24,845
Prepaid expenses	61,215	28,172
Total Current Assets	17,001,304	15,274,710
Noncurrent Assets		
Restricted assets:		
Cash and cash equivalents	2,028,478	1,374,813
Certificates of deposit	504,497	-
Other assets	494,823	494,648
Property, plant and equipment, net	122,603,668	117,665,611
Notes receivable, net of current portion	176,055	176,055
Total Noncurrent Assets	125,807,521	119,711,127
Total Assets	142,808,825	134,985,837
Deferred Outflows of Resources		
Deferred outflows related to pensions	1,593,943	2,565,815
Total Deferred Outflows of Resources	1,593,943	2,565,815
 Total Assets and Deferred Outflows of Resources	 \$ 144,402,768	 137,551,652

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

	<u>2019</u>	<u>2018</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current Liabilities		
Accounts payable	\$ 648,442	2,197,207
Other current liabilities	534,324	491,650
Accrued absences	730,358	642,547
Current portion of long-term debt	2,166,545	2,107,499
Total Current Liabilities	<u>4,079,669</u>	<u>5,438,903</u>
Noncurrent Liabilities		
Reserve for bio-solids disposal	2,547,471	2,330,871
Pension liability	1,753,904	2,685,571
OPEB obligation	299,950	285,680
Bonds payable, net of current portion	43,724,708	40,514,451
Total Noncurrent Liabilities	<u>48,326,033</u>	<u>45,816,573</u>
Total Liabilities	<u>52,405,702</u>	<u>51,255,476</u>
Deferred Inflows of Resources		
Deferred inflows related to pensions	700,882	813,977
Total Deferred Inflows of Resources	<u>700,882</u>	<u>813,977</u>
Total Liabilities and Deferred Inflows of Resources	<u>53,106,584</u>	<u>52,069,453</u>
Net Position		
Net investment in capital assets	76,712,415	75,043,661
Restricted	3,027,798	1,869,461
Unrestricted	11,555,971	8,569,077
Total Net Position	<u>91,296,184</u>	<u>85,482,199</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 144,402,768</u>	<u>137,551,652</u>

North Little Rock Waste Water Utility
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2019 and 2018
(See independent auditor's report)

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Service charges	\$ 20,065,939	18,986,722
Service charges - industry	1,930,986	2,032,760
Service charges - violations	482,928	590,642
Users' forfeited discounts	322,271	305,927
Permits and inspections	40,770	51,395
Other operating income	136,916	124,109
Total Operating Revenues	<u>22,979,810</u>	<u>22,091,555</u>
Operating Expenses		
Cost of sales	9,776,400	8,883,186
Operating expenses	7,254,392	6,864,250
Total Operating Expenses	<u>17,030,792</u>	<u>15,747,436</u>
Operating Income	<u>5,949,018</u>	<u>6,344,119</u>
Non-Operating Income		
Interest income	216,482	104,907
Insurance proceeds	649,171	-
Grant revenue	97,761	-
Gain on disposal of assets	-	1,122,903
Other non-operating income	2,417	45,644
Total Non-Operating Income	<u>965,831</u>	<u>1,273,454</u>
Non-Operating Expenses		
Interest expense	1,060,962	970,313
Loss on disposal of assets	39,902	-
Total Non-Operating Expenses	<u>1,100,864</u>	<u>970,313</u>
Increase in Net Position	5,813,985	6,647,260
Net position - beginning of period	<u>85,482,199</u>	<u>78,834,939</u>
Net Position - End of Period	<u>\$ 91,296,184</u>	<u>85,482,199</u>

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

North Little Rock Waste Water Utility
Statement of Cash Flows
For the Years Ended December 31, 2019 and 2018
(See independent auditor's report.)

	2019	2018
Cash Flows From Operating Activities:		
Cash received from:		
Customers	\$ 22,992,257	21,923,406
Other operating income	136,916	124,109
Cash payments for:		
Cash paid to suppliers for goods and services	(8,342,559)	(7,500,801)
Cash paid to or on behalf of employees for services	(5,440,291)	(3,049,201)
Net Cash Provided (Required) by Operating Activities	9,346,323	11,497,513
 Cash Flows From Capital and Related Financing Activities:		
Repayment of long-term debt and bonds payable	(2,107,501)	(2,428,160)
Proceeds from draws on bond	5,376,804	4,069,853
Acquisition and construction of capital assets	(9,577,377)	(8,097,953)
Proceeds from disposal of property, plant and equipment	55,734	505,885
Insurance proceeds from fire damage	750,000	-
Interest paid	(1,060,962)	(970,313)
Net Cash Provided (Required) by Capital and Related Financing Activities	(6,563,302)	(6,920,688)
 Cash Flows From Investing Activities:		
Proceeds from maturity of certificates of deposit	(10,059,081)	(8,034,114)
Investment in certificates of deposit	8,034,114	4,743,520
Interest and other income received	273,287	113,067
Net Cash Provided (Required) by Investing Activities	(1,751,680)	(3,177,527)
 Net Increase (Decrease) in Cash and Cash Equivalents	1,031,341	1,399,298
Cash and cash equivalents at beginning of year	4,475,007	3,075,709
Cash and Cash Equivalents at End of Year	\$ 5,506,348	4,475,007
 Cash and Cash Equivalents		
Unrestricted cash and cash equivalents	\$ 3,477,870	3,100,194
Restricted cash and cash equivalents	2,028,478	1,374,813
Total Cash and Cash Equivalents	\$ 5,506,348	4,475,007

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

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 5,949,018	6,344,119
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	4,543,684	4,255,094
(Increase) decrease in assets:		
Accounts receivable	247,124	(44,040)
Inventory	(2,224)	13,671
Grant receivable	(97,761)	-
Other assets	(33,218)	120,940
Deferred outflows	971,872	(415,682)
Increase (decrease) in liabilities:		
Accounts payable	(1,548,765)	1,831,918
Accrued absences	87,811	(3,289)
Other liabilities	(658,123)	(475,917)
Deferred inflows	(113,095)	(129,301)
Net Cash Provided by Operating Activities	<u>\$ 9,346,323</u>	<u>11,497,513</u>

Supplemental Disclosure of Noncash Transactions Investing and Financing Activities:

Insurance proceeds receivable from fire damage of property, plant and equipment	<u>\$ -</u>	<u>1,146,219</u>
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North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Principles of Operation

The North Little Rock Waste Water Utility (the "Utility") (a component unit of the City of North Little Rock) is financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The financial statements present only the North Little Rock Waste Water Utility and do not purport to, and do not, present fairly the financial position of the City of North Little Rock, Arkansas, as of December 31, 2019 and 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Certificates of Deposit

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

Accounts Receivable

Sales of sewer services are made on open account to customers located in North Little Rock, Arkansas and surrounding areas. The Utility utilizes the allowance method of accounting for uncollectible accounts receivable. The Utility reviews its customer accounts on a periodic basis and records a reserve for specific amounts that management determines may not be collected. In addition, the Utility has established a general

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

reserve for potential uncollectible accounts based on historical bad debts. Amounts are written off at the point when collection attempts have been exhausted, which is usually 120 days after the account is past due. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance and anticipated customer performance. While management believes the Utility's processes effectively address its exposure to doubtful accounts, changes in economic, industry or specific customer conditions may require adjustment to the allowance recorded by the Utility. Accounts receivable are net of an allowance for doubtful accounts of \$10,000 at both December 31, 2019 and 2018

Inventory

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

Property, Plant and Equipment

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

Long-Lived Assets

The Utility reviews long-lived assets and certain identifiable intangibles held and used by the Utility for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the years ended December 31, 2019 and 2018, no impairment has been identified.

Net Position

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

Net investment in capital assets

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

Restricted for debt service

This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. When an expense is incurred for purposes for which there are

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

both restricted and unrestricted net position available, it is the Utility's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

Unrestricted

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

Accrued Absences

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

Reserve for Bio-Solids Disposal

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

Budgets and Budgetary Accounting

Budgeted revenues and expenses are prepared using the economic resources measurement focus and the accrual basis of accounting. The original budgets adopted by the Utility were not amended during the years ended December 31, 2019 and 2018.

Deferred Outflows/Inflows of Resources

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

Recently Adopted Accounting Standards

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, provides guidance on debt information that is to be disclosed in the notes to governmental financial statements. The statement clarifies which liabilities are to be included in the disclosures and requires additional information to be disclosed. In addition, the statement requires information about debt incurred through direct borrowings or direct placements to be disclosed separately from other debt. The standard became effective for the Utility in fiscal year 2019. GASB Statement No. 88 did not have a significant impact on the Utility's financial statements.

Recently Issued Accounting Standards

GASB Statement No. 87, *Leases*, provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the Utility in

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

fiscal year 2020. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, established accounting requirements for interest cost incurred before the end of a construction period. The statement requires such interest cost be recognized as an expense in the period in which the cost is incurred in financial statements prepared using the economic resources measurement focus. Currently, GASB Statement No. 62 requires some interest costs to be included in the historical cost of a capital asset reported in an enterprise fund or business-type activity. When effective, this statement will no longer require interest cost to be included in historical cost. This standard becomes effective for the Utility in fiscal year 2020. Management of the Utility has not yet determined the impact that adoption of this statement will have on the Utility's financial statements or related disclosures.

2. Description of Funds

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

Sewer Fund

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

Operating and Maintenance Fund

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

Sewer Depreciation Fund

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

Rehabilitation Fund

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

2001 Revolving Loan Fund

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

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

2008 Revolving Loan Fund

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

2012 Revolving Loan Fund

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

2016 Revolving Loan Fund

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

3. Cash and Certificates of Deposit

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

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

Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned to the Utility. At December 31, 2019 and 2018, the Utility's deposits with two financial institutions were fully insured or collateralized and totaled \$15,717,901 and \$12,888,810, respectively.

4. Restricted Funds

The Utility has certain debt services funds with the Arkansas Development Finance Authority ("ADFA"), which are restricted to various uses. The Utility is required to deposit monthly with the ADFA, to be held in trust, an amount equal to 1/6 of the interest to become due on the next ensuing interest payment plus 1/6 of the next installment of principal next due on the Bonds. The required deposits shall be reduced by any amount in the Debt Service Fund available for meeting the purpose for which a deposit is required to be made. The total deposits, held in trust as of December 31, 2019 and 2018, were \$494,823 and \$494,648, respectively.

In addition, certain funds included in cash and cash equivalents and certificates of deposit are restricted to construction, rehabilitation or capital improvements. Those funds totaled \$2,532,975 and \$1,374,813 as of December 31, 2019 and 2018, respectively.

5. Property, Plant and Equipment

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

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

	2018	Additions	Transfers	Disposals	2019
Land	\$ 3,139,809	-	-	-	3,139,809
Plant and equipment	182,107,148	544,187	5,400,466	(706,339)	187,345,462
Construction in process	5,468,899	9,033,190	(5,400,466)	-	9,101,623
	190,715,856	9,577,377	-	(706,339)	199,586,894
Less accumulated depreciation	(73,050,245)	(4,543,684)	-	610,703	(76,983,226)
	<u>\$ 117,665,611</u>	<u>5,033,693</u>	<u>-</u>	<u>(95,636)</u>	<u>122,603,668</u>
	2017	Additions	Transfers	Disposals	2018
Land	\$ 3,139,809	-	-	-	3,139,809
Plant and equipment	170,560,341	2,588,319	10,826,611	(1,868,123)	182,107,148
Construction in process	10,785,876	5,509,634	(10,826,611)	-	5,468,899
	184,486,026	8,097,953	-	(1,868,123)	190,715,856
Less accumulated depreciation	(70,134,073)	(4,255,094)	-	1,338,922	(73,050,245)
	<u>\$ 114,351,953</u>	<u>3,842,859</u>	<u>-</u>	<u>(529,201)</u>	<u>117,665,611</u>

6. Long-Term Debt

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

In 2008, the Utility received a \$14,000,000 program award available for approved construction. The interest rate on the 2008 revolving loan fund is at 1.75% and a financing fee at 1% of the outstanding principal with semi-annual payments of interest and financing fee during the project construction period. Repayment of principal, interest and financing fee of the 2008 loan began in April 2012 with payments to be made semi-annually over twenty years.

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

In 2016, the Utility received a \$30,000,000 program award available for approved construction. The interest rate on the 2016 revolving loan fund is at 1.25% and a financing fee at 1% of the outstanding principal with semi-annual payments of interest and financing fee during the project construction period. Repayment of principal, interest and financing fee of the 2016 loan will begin in April 2021 with payments to be made semi-annually over twenty years. As of December 31, 2019, \$13,836,969 was left to be drawn on this loan.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

The Utility has outstanding revenue bonds from direct borrowings totaling \$45,891,253 and \$42,621,950 for the years ending December 31, 2019 and 2018, respectively. The Utility has specifically pledged the revenues of the utility system for the repayment of the bonds. The above notes payable contain provisions that in the event of default, the lender can exercise one or more of the following options: (1) Make all or any of the outstanding notes payable balance immediately due and accrued interest at highest post maturity interest rate, (2) Take possession of the collateralized properties, (3) Gain access to other assets of the Utility to protect the lender's interest, and (4) Use any remedy allowed by state or federal law. The Utility is required to establish rates sufficient to pay the expenses and operation and maintenance of the water system, to pay the principal of and premium, if any, and interest on all outstanding bonds to which system revenues are pledged as they become due and make required deposits into the Sewer Depreciation Fund. The Utility also covenants that the rates shall, from time to time be increased to such an amount as will provide revenues at least sufficient for the above purposes. The Utility was in compliance with all debt covenants for the years ended .

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

	<u>2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019</u>
Bonds payable	\$ 42,621,950	5,376,804	(2,107,501)	45,891,253
	<u>2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>2018</u>
Bonds payable	\$ 40,980,257	4,069,853	(2,428,160)	42,621,950

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

	<u>2001</u>	<u>2008</u>	<u>2012</u>	<u>2016</u>	<u>Total</u>
Principal:					
2020	\$ 596,346	663,639	906,560	-	2,166,545
2021	615,884	682,015	929,366	1,202,738	3,430,003
2022	636,063	700,900	952,745	1,229,951	3,519,659
2023	656,904	720,307	976,713	1,257,780	3,611,704
2024	336,489	740,252	1,001,283	1,286,239	3,364,263
2025-2029	-	4,020,297	5,397,158	6,881,143	16,298,598
2030-2034	-	1,768,302	6,111,044	7,695,662	15,575,008
Thereafter	-	-	1,315,955	10,446,487	11,762,442
	<u>\$ 2,841,686</u>	<u>9,295,712</u>	<u>17,590,824</u>	<u>30,000,000</u>	<u>59,728,222</u>

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

Interest:

2020	87,548	159,791	434,140	-	681,479
2021	68,010	148,098	411,334	668,272	1,295,714
2022	47,831	136,080	387,955	641,059	1,212,925
2023	26,990	123,730	363,987	613,230	1,127,937
2024	5,468	111,038	339,417	584,771	1,040,694
2025-2029	-	352,167	1,306,342	2,473,905	4,132,414
2030-2034	-	38,946	592,456	1,659,388	2,290,790
Thereafter	-	-	24,725	779,562	804,287
	<u>\$ 235,847</u>	<u>1,069,850</u>	<u>3,860,356</u>	<u>7,420,187</u>	<u>12,586,240</u>

7. Pension Plan**Plan Description**

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

Benefits Provided

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

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

As of the measurement date on July 1, 2019, the Plan had 79 active employees, 35 inactive employees entitled to, but not yet receiving benefits and 46 inactive employees or beneficiaries currently receiving benefits. As of July 1, 2018, the Plan had 82 active employees, 29 inactive employees entitled to, but not yet receiving benefits and 46 inactive employees or beneficiaries currently receiving benefits.

Contributions

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

Contributions are based on the employee's annual covered salary. The Utility's contribution rate and actuarially determined contribution for the years ended December 31, 2019 and 2018, were 14.9 and 18.2

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

percent and \$575,000 and \$698,563, respectively. Actual contributions for the years ended December 31, 2019 and 2018, equaled \$750,000 and \$1,353,100, or 130.4 and 213.1 percent of required contributions, respectively.

Net Pension Liability

The Utility's net pension liability was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, as of June 30 2019 and 2018:

The assumptions used were as follows:

Cost Method:	The "entry age normal cost method" has been used in determining retirement cost. The method used for the July 1, 2013, and previous valuations was the aggregate funding method.
Amortization Method:	The entry age normal cost method also requires an amortization method to be used in calculating the range of recommended contributions. The Unfunded Liabilities are amortized on a level of percentage of salary method and a range of 10 to 20 years is shown.
Pre-Retirement Mortality:	RP 2000 table.
Post-Retirement Mortality:	RP 2000 table. The mortality table used for the July 1, 2013, and previous valuation was the Unisex Pensioner 1984 table (UP84).
Mortality Projection:	Future mortality improvements were not considered in developing the suggested contribution for this report. The liabilities are significantly more volatile with regards to the other assumptions (i.e., investment return, retirement age, and turnover) than with mortality improvement.
Voluntary Terminations:	T-2 table.
Investment Rate of Return:	6.5%, net of Plan investment expense, including inflation
Inflation:	3.0%
Expected Retirement Pattern:	Retirement was assumed to occur on the Normal Retirement Date.
Assumed Investment Return:	6.50% beginning with July 1, 2017 (7.50% for prior years).
Salary Growth:	3.50% annually starting in 2017 (4.50% for prior years), including inflation

The target allocation and best estimates of arithmetic real rates of return for each major asset class as both of December 31, 2019 and 2018, are summarized in the following table:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

2019

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

2018

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

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Single Discount Rate

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

Changes in Net Pension Liability

Changes in the net pension liability for the year ended December 31, 2019, were as follows:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

	<u>Total Pension Liability</u>	<u>Total Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance, July 1, 2018	\$ 14,296,995	11,611,424	2,685,571
Changes for the year:			
Service cost	372,460	-	372,460
Interest	934,150	-	934,150
Difference between expected and actual experience	(88,707)	-	(88,707)
Contributions—employer	-	1,353,100	(1,353,100)
Net investment income	-	798,804	(798,804)
Benefit payments including refunds of employee contributions	(595,829)	(595,829)	-
Administrative expense	-	-	-
Change in assumptions	-	-	-
Other charges	-	(2,334)	2,334
Net changes	<u>622,074</u>	<u>1,553,741</u>	<u>(931,667)</u>
Balance, June 30, 2019	<u>\$ 14,919,069</u>	<u>13,165,165</u>	<u>1,753,904</u>

Changes in the net pension liability for the year ended December 31, 2018, were as follows:

	<u>Total Pension Liability</u>	<u>Total Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance, July 1, 2017	\$ 13,669,600	10,883,507	2,786,093
Changes for the year:			
Service cost	364,770	-	364,770
Interest	893,838	-	893,838
Difference between expected and actual experience	(64,567)	-	(64,567)
Contributions—employer	-	702,970	(702,970)
Net investment income	-	577,978	(577,978)
Benefit payments including refunds of employee contributions	(566,646)	(566,646)	-
Administrative expense	-	-	-
Changes in assumptions	-	-	-
Other charges	-	13,615	(13,615)
Net changes	<u>627,395</u>	<u>727,917</u>	<u>(100,522)</u>
Balance, June 30, 2018	<u>\$ 14,296,995</u>	<u>11,611,424</u>	<u>2,685,571</u>

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

The following presents the net pension liability calculated using the discount rate of 6.5 and 7.5 percent for the year ended December 31, 2019 and 2018, respectively. Furthermore, the following represent the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

	December 31, 2019			December 31, 2018		
	Discount Rate	Total Pension Liability	Net Pension Liability	Discount Rate	Total Pension Liability	Net Pension Liability
1% decrease	5.50%	\$16,582,380	3,417,215	5.50%	\$15,916,481	4,305,057
Current discount rate	6.50%	14,919,069	1,753,904	6.50%	14,297,295	2,685,871
1% increase	7.50%	13,492,115	326,950	7.50%	12,906,798	1,295,374

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

For the year ended December 31, 2019 and 2018, the Utility recognized pension expense of \$677,110 and \$707,595, respectively. At December 31, 2019 and 2018, the deferred outflows and inflows of resources were as follows:

	2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		\$ 47,341	656,021
Changes of assumptions		655,542	-
Net difference between projected and actual earnings on Plan investments		141,060	44,861
		843,943	700,882
Employer contributions subsequent to measurement		750,000	-
Total		<u>\$ 1,593,943</u>	<u>700,882</u>
	2018		
Differences between expected and actual experience		\$ 60,868	752,527
Changes of assumptions		801,218	-
Net difference between projected and actual earnings on Plan investments		350,629	61,450
		1,212,715	813,977
Employer contributions subsequent to measurement		1,353,100	-
Total		<u>\$ 2,565,815</u>	<u>\$ 813,977</u>

The \$750,000 and \$1,353,100 in 2019 and 2018, respectively, that are reported as deferred outflows of resources related to pensions result from contributions by the Utility made subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the years ending December 31, 2019 and 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

	2020	\$	39,866
	2021		(20,602)
	2022		52,307
	2023		71,097
	2024		22,436
	Thereafter		(22,043)
		<u>\$</u>	<u>143,061</u>

Components of Net Pension Liability

The components of the net pension liability at June 30, 2019, were as follows:

	<u>2019</u>		<u>2018</u>
Total pension liability	\$ 14,919,069	\$	14,297,295
Plan's fiduciary net position	13,165,165		11,611,424
Net pension liability	<u>\$ 1,753,904</u>	<u>\$</u>	<u>2,685,871</u>
Plan fiduciary net position as a percentage of total pension liability	88.24%		81.21%

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

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

Plan Description

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

Benefits Provided

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

As the measurement date of December 31, 2019, the Plan had 85 active employees with no inactive employees entitled to, but not yet receiving benefits and no inactive employees or beneficiaries currently receiving benefits.

Annual OPEB Cost and Net OPEB Liability

The Utility's annual OPEB cost and liability is calculated using the Entry Age Normal Actuarial Cost Method as required by GASB 75. The Actuarially Determined Contribution and the Amortization Payment

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

are not applicable due to the plan not being prefunded. The Utility recognizes a liability due to the implicit subsidy rate that is inherent of retiree healthcare costs by active employee healthcare costs when healthcare premiums paid by retirees and active employees are the same.

As of both December 31, 2019 and 2018, the actuarial accrued liability for benefits was \$299,950 and \$285,680, respectively, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2019 and 2018, was \$4,490,198 and \$4,051,934, respectively, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 6.68% and 7.05%, respectively. The actuarial assumptions included a 3.26% investment rate of return and projected annual salary increases of 2.80%.

Health Insurance Premiums

Health insurance premiums are paid monthly and are the same for both pre-age 65 and ages 65 or older. Benefits pay secondary to medicare. For the year ended December 31, 2019, annual retiree health insurance premiums were \$5,376 for a single coverage and \$11,910 for family coverage.

Healthcare Cost Trend Rate

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

Actuarial Cost Methods and Assumptions

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

The following represent the key actuarial assumptions:

Age Adjustment Factor:	1.987705
Average Retirement Age:	63
Employer Future Premium Contribution:	Remain a level percentage of the total cost over time
Actuarial Cost Method:	Entry Age Normal
Amortization: Method:	Level Percentage of Payroll
Assets Backing OPEB Liability:	None
Plan Asset Return:	None
Bond Yield:	3.26%
Discount Rate:	3.26%
Measurement Date:	December 31, 2019
Prior Measurement Date:	December 31, 2018
Prior Year Discount Rate:	3.64%
Projected Salary Increases:	2.8%
Amortization Period:	20 years, if applicable
Percentage Participation:	6.00%
Healthcare Cost Trend:	Healthcare costs are expected to increase annually 4.6% to 4.8%

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

NOL and ADC:	for medical, 4.7% to 7.6% for pharmacy, 3.0% to 3.5% for dental and 3.0% for vision. Calculated using the Alternative Measurement Method in accordance with GASB methodology.
Mortality Table:	RP2000 Mortality Table for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity.
Turnover Assumption	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of employee group covered by the Federal Employees Retirement System.

Changes in Net OPEB Liability

Changes in the net pension liability were as follows:

<u>2019</u>	<u>Total OPEB Liability</u>	<u>Total Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance, January 1, 2019	\$ 285,680	-	285,680
Changes for the year:			
Service cost	15,645	-	15,645
Interest on OPEB liability	10,968	-	10,968
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	(33,223)	-	(33,223)
Effect of assumption changes or inputs	20,880	-	20,880
Net changes	14,270	-	14,270
Balance, December 31, 2019	<u>\$ 299,950</u>	<u>-</u>	<u>299,950</u>
<u>2018</u>	<u>Total OPEB Liability</u>	<u>Total Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance, January 1, 2018	\$ 170,593	-	170,593
Changes for the year:			
Service cost	15,645	-	15,645
Interest on OPEB liability	9,047	-	9,047
Effect of plan changes	-	-	-
Effect of economic/demographic gains or losses	31,724	-	31,724
Effect of assumption changes or inputs	58,671	-	58,671
Net changes	115,087	-	115,087
Balance, December 31, 2018	<u>\$ 285,680</u>	<u>-</u>	<u>285,680</u>

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

The following presents the OPEB liability calculated using the discount rate of 2.26 and 4.26 percent for the year ended December 31, 2019. Furthermore, the following represent the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

	<u>Discount Rate</u>	<u>Net OPEB Liability</u>	<u>Changes from Baseline</u>
1% decrease	2.26%	\$ 365,950	66,000
Current discount rate	3.26%	299,950	-
1% increase	4.26%	249,024	(50,926)

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

	<u>Baseline Trend - 1%</u>	<u>Baseline Trend</u>	<u>Baseline Trend + 1%</u>
Net OPEB Liability	\$240,321	\$299,950	\$378,725
Change from Baseline	(\$59,628)	\$0	\$78,776

9. Average Number of Sewer Users

The average number of residential, commercial, and industrial customers for the year ended December 31, 2019, was 36,688; 3,591; and 19, respectively. The average number of residential, commercial, and industrial customers for the year ended December 31, 2018, was 36,512; 3,533; and 19, respectively.

10. Insurance Coverage

The Utility was insured at December 31, 2019 and 2018, for general liability, automobile liability and all risk replacement cost except worker's compensation with the Arkansas Public Entities Risk Management Association with claims administered by Gallagher Bassett Insurance Services of Little Rock. The Utility was insured with the Municipal League Workers' Compensation Trust for worker's compensation. The policy effective dates are for a calendar year for all aforementioned insurance policies. The Utility was insured at December 31, 2019 and 2018, with RSUI Indemnity Co. for blanket property coverage.

The following schedule lists the coverage and limits:

<u>Type of Insurance</u>	<u>Limits</u>
1. General liability	
a. General aggregate	\$350,000 per member/per policy period
b. General liability	\$350,000 each occurrence, bodily injury and property damage
c. Medical expenses	\$5,000 per person/\$25,000 each occurrence loss
2. Automobile liability	\$100,000 each occurrence, bodily injury and property damage
3. All risk replacement cost	\$100,000,000
4. Blanket property coverage	
a. Earthquake coverage	\$100,000,000
b. Flood coverage	\$100,000,000

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

11. Current Sewer Rates

The current sewer rates were established by Ordinance No. 8768 by the City Council of the City of North Little Rock on October 26, 2015. The classes of users include residential, commercial, and significant industrial customers. The rates for each residential customer are computed based on the average monthly usage for the billing months of October, November, December, January, February and March. The rates for each commercial customer are computed based on the actual usage.

In the case of new residential customers for whom records are not available for the entire six-month period, the rates are computed on actual water usage until an average monthly usage can be calculated. The minimum monthly charge for the first four hundred cubic feet or less of the average monthly usage is a rate equal to \$17.52.

For each one hundred cubic feet, or fraction thereof, the monthly rate for residential, commercial and industrial customers is equal to \$5.27 per one hundred cubic feet charged with a minimum of \$17.52 per four hundred cubic feet for existing users. Existing users are defined as users physically located within the city limits of North Little Rock or when they are physically located within the now existing territorial boundaries of an improvement district that received services from the system on the date of the enactment of ordinance 8768. Any user not deemed to be an existing user shall be deemed to be an outside user, but will have the same monthly rate as an existing user.

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

12. Total Annual Billable Water

The total annual billable water for the year ended December 31, 2019, was 3,741,664 one-hundred cubic feet, comprised of 2,363,678 one-hundred cubic feet annual billable water for residential customers and 1,377,986 one-hundred cubic feet annual billable water for commercial customers. The total annual billable water for the year ended December 31, 2018, was 3,903,275 one-hundred cubic feet comprised of 2,452,354 one-hundred cubic feet annual billable water for residential customers and 1,450,921 one-hundred cubic feet annual billable water for commercial customers.

13. Contingency

The Utility had a fire that damaged or destroyed buildings and equipment in 2018. Management has been working with contractors and obtaining bids for repairs and replacements through year end and subsequent to year end and a final determination has not been made on proceeds from the insurance claim. As of December 31, 2019, insurance had agreed to pay \$1,646,219 for the damages and loss of equipment known at that time. As of December 31, 2019, \$1,045,390 had not been received and is recorded as an insurance receivable.

North Little Rock Waste Water Utility
Notes to Financial Statements
December 31, 2019 and 2018

14. Uncertainty

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Utility as of May 12, 2020, management believes that a material impact on the Utility's financial position and results of future operations is reasonably possible.

North Little Rock Waste Water Utility
Combined Statement of Revenues, Expenses, and Changes in Net Position
Budgetary Comparison Schedule
For the Year Ended December 31, 2019
(See independent auditor's report.)

	Original and Final Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Service charges	\$ 20,896,000	20,065,939	(830,061)
Service charges - industry	2,136,700	1,930,986	(205,714)
Service charges - violations	400,600	482,928	82,328
Users' forfeited discounts	333,500	322,271	(11,229)
Permits and inspections	48,600	40,770	(7,830)
Other operating income	59,100	136,916	77,816
Total Operating Revenues	<u>23,874,500</u>	<u>22,979,810</u>	<u>(894,690)</u>
Operating Expenses			
Cost of sales	11,553,400	9,776,400	(1,777,000)
Operating expenses	7,123,100	7,254,392	131,292
Total Operating Expenses	<u>18,676,500</u>	<u>17,030,792</u>	<u>(1,645,708)</u>
Operating Income	<u>5,198,000</u>	<u>5,949,018</u>	<u>751,018</u>
Non-Operating Income			
Interest and other income	140,600	965,831	825,231
Total Non-Operating Income	<u>140,600</u>	<u>965,831</u>	<u>825,231</u>
Non-Operating Expenses			
Interest expense	1,196,000	1,100,864	(95,136)
Total Non-Operating Expenses	<u>1,196,000</u>	<u>1,100,864</u>	<u>(95,136)</u>
Increase in Net Position	4,142,600	5,813,985	1,671,385
Net position - beginning of period	85,482,199	85,482,199	-
Net Position - End of period	<u>\$ 89,624,799</u>	<u>91,296,184</u>	<u>1,671,385</u>

North Little Rock Waste Water Utility
Schedule of Changes in the Net Pension Liability and Related Ratios
For the Five Years Ended December 31, 2019
(See independent auditor's report.)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 372,460	364,770	325,043
Interest	934,150	893,838	927,980
Benefit changes	-	-	-
Differences between expected and actual experience	(88,707)	(64,567)	(449,454)
Assumption change	-	-	1,092,570
Benefit payments	(595,829)	(566,646)	(549,127)
Net change in total pension liability	622,074	627,395	1,347,012
Total pension liability - beginning	14,296,995	13,669,600	12,322,588
Total Pension Liability - Ending	<u>14,919,069</u>	<u>14,296,995</u>	<u>13,669,600</u>
Plan Fiduciary Net Position			
Contributions - employee	-	-	-
Contributions - employer	1,353,100	702,970	625,000
Net investment income	798,804	577,978	858,710
Benefit payments	(595,829)	(566,646)	(549,127)
Administrative expense	-	-	-
Other	(2,334)	13,615	14,211
Net change in plan net position	1,553,741	727,917	948,794
Plan fiduciary net position - beginning	11,611,424	10,883,507	9,934,713
Plan Fiduciary Net Position - Ending	<u>13,165,165</u>	<u>11,611,424</u>	<u>10,883,507</u>
 Net pension liability	 <u>\$ 1,753,904</u>	 <u>2,685,571</u>	 <u>2,786,093</u>
 Plan fiduciary net position as a percentage of total pension liability	 88.24%	 81.22%	 79.62%
 Covered employee payroll	 3,859,063	 3,843,866	 3,675,206
 Net pension liability as a percentage of covered employee payroll	 45.45%	 69.87%	 75.81%
 Annual money-weighted rate of return	 6.6%	 5.3%	 8.6%

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

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

<u>2016</u>	<u>2015</u>
289,654	273,092
871,343	881,729
-	-
101,449	(786,365)
-	-
(536,212)	(510,798)
<u>726,234</u>	<u>(142,342)</u>
11,596,354	11,738,696
<u>12,322,588</u>	<u>11,596,354</u>

-	-
600,000	642,000
416,717	94,153
(536,212)	(510,798)
-	-
(2,632)	(558)
<u>477,873</u>	<u>224,797</u>
9,456,840	9,232,043
<u>9,934,713</u>	<u>9,456,840</u>
<u>2,387,875</u>	<u>2,139,514</u>

80.62%	81.55%
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3,621,125	3,288,939
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65.94%	65.05%
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4.4%	1.0%
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North Little Rock Waste Water Utility
Schedule of Contributions
For the Five Years Ended December 31, 2019
(See independent auditor's report.)

Fiscal Year ending June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as % of Payroll
2015	\$ 577,750	642,000	(64,250)	3,125,501	20.54%
2016	551,811	600,000	(48,189)	3,288,939	18.24%
2017	616,644	625,000	(8,356)	3,621,125	17.26%
2018	702,970	1,353,100	(650,130)	3,675,206	36.82%
2019	698,563	750,000	(51,437)	3,859,063	19.43%

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

Key assumptions for actuarially determined contribution:

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

North Little Rock Waste Water Utility
Schedule of Changes in the Other Post-Retirement Benefit Liability and Related Ratios
For the Three Years Ended December 31, 2019
(See independent auditor's report.)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service cost	\$ 15,645	\$ 15,645	14,453
Interest	10,968	9,047	5,951
Benefit changes	-	-	-
Differences between expected and actual experience	-	-	-
Effect of economic/demographic gains or losses	(33,223)	31,724	-
Assumption change	20,880	58,671	-
Benefit payments	-	-	-
Net change in total pension liability	<u>14,270</u>	<u>115,087</u>	<u>20,404</u>
Total OPEB liability - beginning	<u>285,680</u>	<u>170,593</u>	<u>150,189</u>
Total OPEB Liability - Ending	<u>299,950</u>	<u>285,680</u>	<u>170,593</u>
Plan Fiduciary Net Position			
Contributions - employee	-	-	-
Contributions - employer	-	-	-
Net investment income	-	-	-
Benefit payments	-	-	-
Administrative expense	-	-	-
Other	-	-	-
Net change in plan net position	<u>-</u>	<u>-</u>	<u>-</u>
Plan fiduciary net position - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending	<u>-</u>	<u>-</u>	<u>-</u>
 Net OPEB liability	 <u>\$ 299,950</u>	 <u>\$ 285,680</u>	 <u>170,593</u>
 Plan fiduciary net position as a percentage of total pension liability	 0.00%	 0.00%	 0.00%
 Covered employee payroll	 4,367,587	 4,051,934	 4,312,328
 Net OPEB liability as a percentage of covered employee payroll	 6.87%	 7.05%	 3.96%

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

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

North Little Rock Waste Water Utility
Schedule of Operating Expenses
For the Years Ended December 31, 2019 and 2018
(See independent auditor's report on other supplementary information.)

	<u>2019</u>	<u>2018</u>
Administrative and General		
Advertising	\$ 5,832	3,348
Audit and other professional fees	33,500	28,959
Contributions	750	750
Employee physicals expense	409	1,053
Equipment repair and maintenance	10,906	9,592
Executive salary	137,968	137,707
Gas - transportation equipment	91	180
Holiday pay	20,347	19,373
Insurance - general	7,900	8,950
Insurance - group	73,032	75,741
Insurance - transportation equipment	2,889	2,778
Janitorial	4,380	5,224
Labor expense - office	260,203	276,696
Legal	45,354	21,523
Longevity pay	65,507	64,316
Maintenance and repairs - general	-	4,764
Master plan study	27,767	0
Miscellaneous	242,174	124,806
Miscellaneous leave pay	2,263	2,825
OPEB expense	14,270	115,087
Payroll taxes	45,209	45,623
Postage expense	1,812	1,844
Rent/lease expense	1,536	1,595
Sick leave expense	28,202	20,922
Subscription and dues	6,896	4,900
Supplies expense	13,504	20,618
Telephone	16,492	11,651
Training	14,049	9,004
Travel, meetings, and conventions	5,158	3,450
Uniform	351	350
Utilities	9,699	9,839
Vacation	45,535	40,153
Workers' compensation insurance	6,568	9,572
Total Administrative and General	<u>1,150,553</u>	<u>1,083,193</u>

	<u>2019</u>	<u>2018</u>
Undistributed Expense		
Depreciation - nonfunded	4,016,058	3,890,196
Employee pension	677,110	707,595
Pension plan administration	10,975	10,845
Total Undistributed Expense	<u>4,704,143</u>	<u>4,608,636</u>
Utilities Accounting		
Billing and collecting - North Little Rock district	682,480	621,156
Billing and collecting - other districts	33,879	32,841
Depreciation	527,626	364,898
Gas - transportation equipment	1,854	2,052
Holiday pay	5,859	5,789
Insurance - transportation equipment	1,685	1,389
Labor expense	120,123	117,713
Maintenance and repairs - transportation equipment	1,842	2,541
Sick pay	5,736	4,705
Supplies expense	2,340	2,822
Telephone expense	7,967	5,885
Vacation pay	8,305	10,630
Total Utilities Accounting	<u>1,399,696</u>	<u>1,172,421</u>
Total Operating Expenses	<u>\$ 7,254,392</u>	<u>6,864,250</u>

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of North Little Rock Waste Water Utility as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise North Little Rock Waste Water Utility's basic financial statements, and have issued our report thereon dated May 12, 2020.

Internal Control over Financial Reporting

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

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

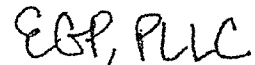
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Little Rock Waste Water Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.



May 12, 2020
North Little Rock, Arkansas

Certified Public Accountants & Consultants



**Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control Over Compliance Required by the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited North Little Rock Waste Water Utility's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of North Little Rock Waste Water Utility's major federal programs for the year ended December 31, 2019. North Little Rock Waste Water Utility's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of North Little Rock Waste Water Utility's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Little Rock Waste Water Utility's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of North Little Rock Waste Water Utility's compliance.

Opinion on Each Major Federal Program

In our opinion, North Little Rock Waste Water Utility complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of North Little Rock Waste Water Utility is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered North Little Rock Waste Water Utility's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but

not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Little Rock Waste Water Utility's internal control over compliance.

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

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

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

May 12, 2020
North Little Rock, Arkansas

EGP, PLLC
Certified Public Accountants & Consultants

**North Little Rock Waste Water Utility
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

<u>Program</u>	<u>Federal Agency/ Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Amount Expended</u>
Clean Water State Revolving Fund	Environmental Protection Agency/Arkansas Natural Resource Commission	66.458	01068-CWSRF- L	\$ 1,078,737
Disaster Grants- Public Assistance	United States Department of Homeland Security/State of Arkansas Department of Emergency Management	97.036	FEMA 4441- DR Arkansas	<u>97,761</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,176,498</u></u>

Note to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The above schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of North Little Rock Waste Water Utility under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of North Little Rock Waste Water Utility, it is not intended to and does not present the financial position, changes in net assets, or cash flows of North Little Rock Waste Water Utility.

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

North Little Rock Waste Water Utility has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**North Little Rock Waste Water Utility
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2019**

Summary of Auditor's Results

Financial Statements

1. The opinion expressed in the independent accountants' report was:

Unmodified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financials reporting described:

Material weakness(es)? Yes No

Significant deficiency(s) noted that are not considered to be a material weakness(es)? Yes None reported

3. Noncompliance considered material to the financial statements was disclosed by the audit:

Yes No

Federal Awards

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

Material weakness(es)? Yes No

Significant deficiency(s) noted that are not considered to be a material weakness(es)? Yes None reported

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:

Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by 2 CFR 200.516?

Yes No

7. The Utility's major program was the Clean Water State Revolving Fund 66.458 program.

8. The threshold used to distinguish between Type A and Type B programs as defined in OMB 2 CFR 200.501 was \$750,000.

9. The Utility qualified as a low-risk auditee as that term is defined in 2 CFR 200.520?

Yes No

North Little Rock Waste Water Utility
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by 2 CFR 200.500

Reference Number	Finding	Questioned Costs
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No matters are reportable.

North Little Rock Waste Water Utility
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2019

Findings Required to be Reported by *Government Auditing Standards*

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
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No matters are reportable.

Findings Required to be Reported by 2 CFR 200.500

<u>Reference Number</u>	<u>Finding</u>	<u>Questioned Costs</u>
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An audit under the Uniform Guidance was not conducted for 2018.