

MENA WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF MENA, ARKANSAS
AUDITED FINANCIAL STATEMENTS
OCTOBER 31, 2021 AND 2020



MENA WATER UTILITIES

OCTOBER 31, 2021 AND 2020

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Independent Auditor's Report

To the Commissioners
Mena Water Utilities
Mena, Arkansas

We have audited the accompanying financial statements of the Mena Water Utilities (the Utility), as of and for the years ended October 31, 2021 and 2020, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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 Mena Water Utilities as of October 31, 2021 and 2020, and the 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 water department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Mena, Arkansas, as of October 31, 2021, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

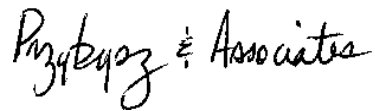
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8, and the information for cost-sharing employer plans on pages 35 and 36 be presented to supplement the basic financial statements. Such information, although 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 Mena Water Utilities basic financial statements. The schedule of revenues and expenses – sewer only is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The schedule 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 March 28, 2022, on our consideration of Mena Water Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mena Water Utilities' 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 Mena Water Utilities' internal control over financial reporting and compliance.



Przybysz & Associates, CPAs. P.C.
Fort Smith Arkansas
March 28, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2021**

This section of the Mena Water Utilities' (the Utility) annual financial report presents the analysis of the Utility's financial performance during the calendar year ended October 31, 2021. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Utility ended the year October 31, 2020 with a net position balance of \$6,494,524.
- The change in net position or net loss of the Utility was a decrease of \$126,730.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2021, total cash decreased by \$111,955. Cash provided from the day-to-day operations totaled \$899,783. Cash used by capital and related financing activities totaled \$1,150,047. This amount was largely due to scheduled debt service of \$678,405, fixed asset purchases of \$489,174 offset by transfers from the City of Mena totaling \$17,532. Cash provided by investing activities totaled \$136,092.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Basic Financial Statements. The financial statements include notes, which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Utility report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America. The Statement of Net Position includes information on the Utility's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Utility creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the Utility's revenues and expenses for the fiscal year ended October 31, 2021. This statement provides information on the Utility's operations over the past fiscal year and can be used to determine whether the Utility has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the Utility's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. The net result of these activities added to the beginning of the year cash, cash equivalent and restricted cash balance total to the cash, cash equivalent and restricted cash balance at the end of the current calendar year.

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2021**

CONDENSED FINANCIAL INFORMATION

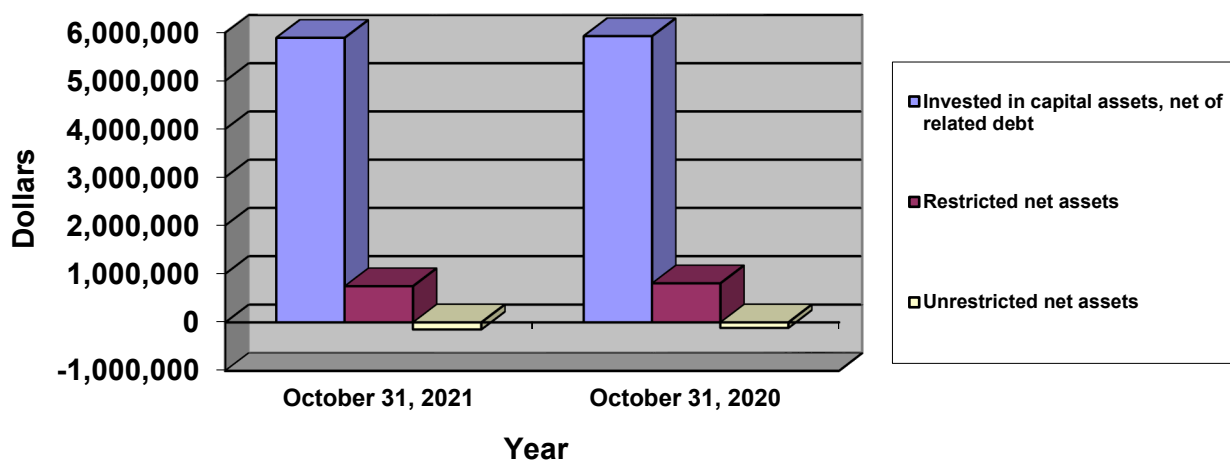
Condensed financial information from the statement of net assets as of October 31, 2021 and 2020 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	October 31,	
	2021	2020
Current assets	\$ 1,677,125	\$ 1,918,797
Capital assets, net	11,923,344	12,277,061
Total assets	<u>13,600,469</u>	<u>14,195,858</u>
Deferred outflows	<u>383,525</u>	<u>354,896</u>
Current liabilities	774,372	834,345
Long-term debt	6,659,362	7,030,623
Total liabilities	<u>7,433,734</u>	<u>7,864,968</u>
Deferred inflows	<u>55,736</u>	<u>64,532</u>
Net assets:		
Net investment in capital assets	5,892,813	5,928,178
Restricted	746,416	806,054
Unrestricted	(144,705)	(112,978)
Total net assets	<u>\$ 6,494,524</u>	<u>\$ 6,621,254</u>
Operating revenues	<u>\$ 2,813,428</u>	<u>\$ 2,691,058</u>
Operating expenses, excluding depreciation	1,893,892	1,684,503
Depreciation	840,877	838,845
Total operating expenses, including depreciation	<u>2,734,769</u>	<u>2,523,348</u>
Operating income	78,659	167,710
Nonoperating revenues/(expenses)	(222,921)	(233,657)
Transfers	<u>17,532</u>	<u>668,876</u>
Change in net assets	(126,730)	602,929
Beginning of year net assets	6,621,454	6,018,525
End of year net assets	<u>\$ 6,494,724</u>	<u>\$ 6,621,454</u>

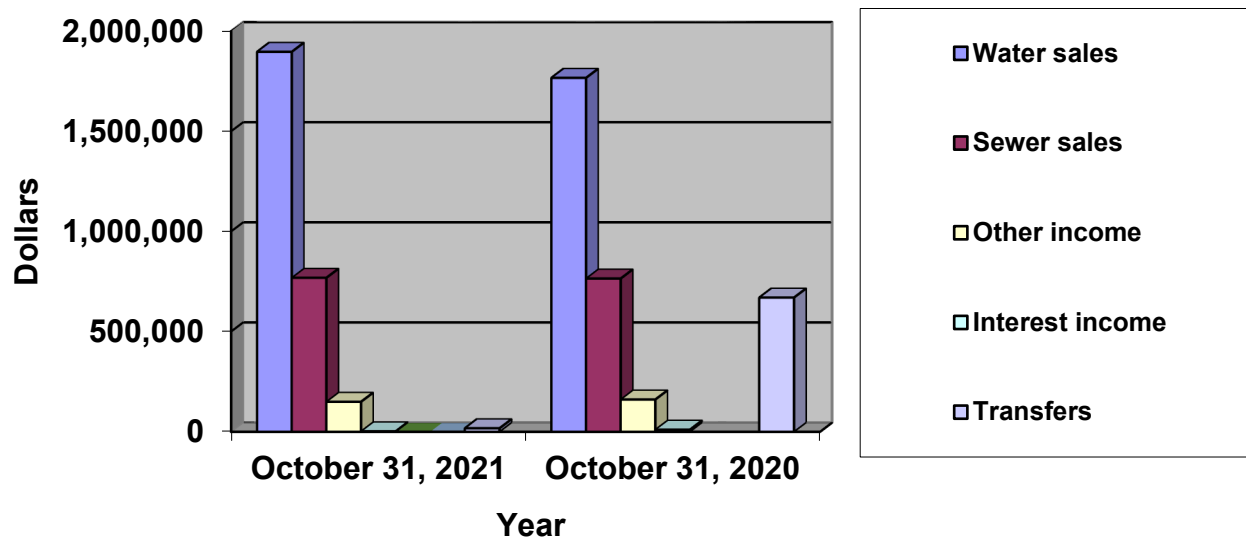
**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2021**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

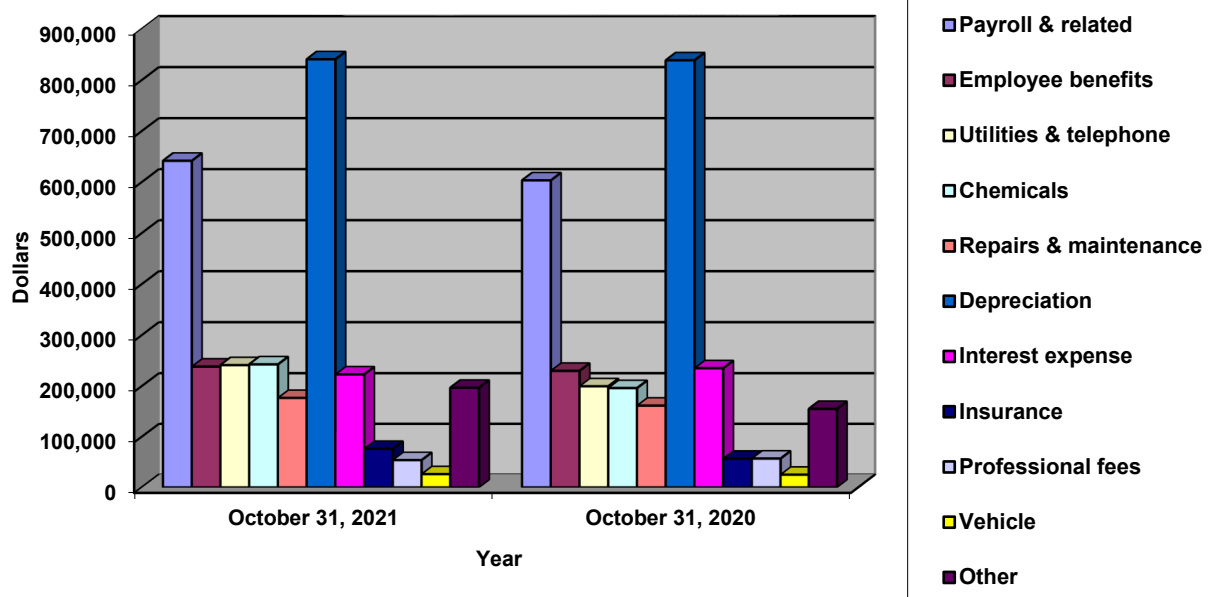


Revenue of the Utility presented in a graph format



MENA WATER UTILITIES MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED OCTOBER 31, 2021

Expenses of the Utility presented in graph format



CAPITAL ASSETS

The Utility's capital assets as of October 31, 2021 and 2020 amounted to \$29,579,302 and \$29,100,481 respectively. This investment in capital assets includes the utility plant and distribution system, machinery and equipment, and construction in process. Capital asset additions totaled \$584,898. Of this amount, \$127,281 was for new water meters, \$88,224 was for manhole refurbishment, and another \$77,899 was for the establishment of new water or sewer taps. An additional \$150,448 was spent on projects still in progress at the end of the year as discussed in the following paragraph.

The Utility has construction in progress of \$541,819 at October 31, 2021, for two significant projects. The first is for improvements at the Iron Forks Water Treatment Plant. This project is estimated to cost approximately \$15.2 million. The Utility has been approved for loans of \$13.6 million and a grant of \$1.6 million to fund this project. The second project is for a new wastewater treatment plant. This project is estimated to cost \$16 million. The Utility has applied for funding and is awaiting approval. Both projects are estimated to be completed in 2024.

LONG-TERM DEBT

The Utility's total debt at October 31, 2021 was \$6,372,219 compared to \$6,837,056 as of October 31, 2020. Total debt service for the year ended October 31, 2021 was \$678,605 of which \$464,837 was for scheduled principal payments.

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2021**

CHANGE IN NET POSITION

For the year ended October 31, 2021, the Utility's change of net position was a decrease of \$144,262. Operating revenues of \$2,813,428 increased by \$122,370 (4.5%) from prior year. Operating expenses of \$2,734,769 increased by \$211,421 (8.4%) from prior year mainly due to an increase in chemicals of \$46,613 (23.8%), and increase in electric utilities of \$39,357 (21.5%) and an increase in wages of \$35,601 (6.4%)

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utility's customers, investors and other interested parties with an overview of the Utility's financial operations and financial condition. Should the reader have questions regarding the information included in this report or need additional financial information, please contact the finance officer of the Mena Water Utilities, 701 Mena Street, Mena, Arkansas 71953; 479-394-276

FINANCIAL STATEMENTS

MENA WATER UTILITIES

STATEMENTS OF NET POSITION

AS OF OCTOBER 31,	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 125,480	\$ 177,144
Restricted cash	258,110	318,401
Restricted investments	832,040	968,132
Accounts receivable, net of allowance for credit losses	256,196	253,097
Inventory	192,936	180,795
Prepaid expenses	12,363	21,228
Total Current Assets	1,677,125	1,918,797
Noncurrent Assets		
Capital Assets		
Property, plant, and equipment	29,579,302	29,100,481
Less accumulated depreciation	(17,655,958)	(16,823,420)
Net Capital Assets	11,923,344	12,277,061
Total Assets	13,600,469	14,195,858
Deferred Outflows		
Deferred loss on refunding, net of amortization	110,179	120,977
Deferred outflows of resources related to pension	273,346	233,919
Total Deferred Outflows	383,525	354,896
Total Assets and Deferred Outflows of Resources	\$ 13,983,994	\$ 14,550,754

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF NET POSITION

AS OF OCTOBER 31,	2021	2020
Liabilities		
Current Liabilities		
Accounts payable	\$ 72,502	\$ 124,595
Sales tax payable	12,367	12,469
Payroll taxes payable	7,007	7,374
Wages payable	38,133	44,216
Accrued interest	100,041	106,931
Customer meter deposits	73,015	74,025
Current portion of long-term debt	471,307	464,735
Total Current Liabilities	774,372	834,345
Noncurrent liabilities:		
Long-term debt, net of unamortized bond discounts	5,838,870	6,304,631
Net pension liability	820,492	725,992
Total Noncurrent Liabilities	6,659,362	7,030,623
Total Liabilities	7,433,734	7,864,968
Deferred Inflows		
Deferred inflows of resources related to pension	55,736	64,532
Total Deferred Inflows	55,736	64,532
Net Position		
Net investment in capital assets	5,892,813	5,928,178
Restricted	746,416	806,054
Unrestricted	(144,705)	(112,978)
Total Net Position	6,494,524	6,621,254
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 13,983,994	\$ 14,550,754

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED OCTOBER 31,	2021	2020
Operating Revenue		
Metered water	\$ 1,896,375	\$ 1,766,243
Measured sewer	767,689	764,056
Other	149,364	160,759
Total Operating Revenue	2,813,428	2,691,058
Operating Expenses		
Advertising	3,653	2,266
Employee benefits	238,370	230,082
Depreciation	840,877	838,845
Insurance	76,071	56,655
Dues and fees	47,056	40,942
Office	22,331	15,826
Professional fees	53,864	56,910
Contractual services	4,737	3,566
Lab expense	45,279	39,606
Vehicle	26,105	24,998
Repairs and maintenance	176,717	161,487
Salaries	591,266	555,465
Supplies	12,841	10,102
Chemicals	242,760	196,147
Education and safety	16,587	7,884
Utilities and telephone	241,266	199,741
Payroll taxes	50,621	48,030
Other operating expenses	44,368	34,796
Total Operating Expenses	2,734,769	2,523,348
Net Income From Operations	78,659	167,710
Other Income (Expenses)		
Interest income	2,217	10,538
Gain (loss) on disposition of equipment	(2,014)	(9,004)
Interest expense, inclusive of amortization of bond discounts and amortization of deferred amount on advance refunding	(223,124)	(235,191)
Total Net Other Income (Expenses)	(222,921)	(233,657)
Net Loss Before Transfers	(144,262)	(65,947)
Operating Transfers	17,532	668,876
Change in Net Position	(126,730)	602,929
Net Position at Beginning of Year	6,621,254	6,018,325
Net Position at End of Year	\$ 6,494,524	\$ 6,621,254

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31,	2021	2020
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 2,660,863	\$ 2,512,379
Other receipts	149,364	160,759
Cash payments to suppliers for goods and services	(1,313,095)	(995,020)
Cash payments to employees for services	(597,349)	(563,567)
Net Cash Provided By Operating Activities	899,783	1,114,551
Cash Flows From Capital and Related Financing Activities		
Acquisition of property, plant and equipment	(489,174)	(751,807)
Proceeds from sale of assets	-	10,500
Repayment of debt	(464,837)	(388,444)
Interest paid on debt	(213,568)	(218,426)
Transfers from the City of Mena	17,532	70,692
Net Cash Used By Capital and Related Financing Activities	(1,150,047)	(1,277,485)
Cash Flows From Investing Activities		
Net investment activity	136,092	167,821
Interest income	2,217	10,538
Net Cash Provided By Investing Activities	138,309	178,359
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	(111,955)	15,425
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	495,545	480,120
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 383,590	\$ 495,545
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 125,480	\$ 177,144
Restricted cash	258,110	318,401
Total Cash, Cash Equivalents and Restricted Cash	\$ 383,590	\$ 495,545
Supplemental Schedule of Noncash Capital and Related Financing Activities		
Land acquired through direct financing	\$ -	\$ 190,000
Debt paid by the City on behalf of the Utility	-	658,422
Interest paid by the City on behalf of the Utility	-	5,379
Receivable from City held as debt service reserve released	-	65,617

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31,	2021	2020
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net income from operations	\$ 78,659	\$ 167,710
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	840,877	838,845
(Increase) decrease in:		
Trade accounts receivable	(3,099)	(18,085)
Inventory	(12,141)	(39,459)
Prepaid expenses	8,865	89,181
Deferred outflows related to pension	(39,427)	(38,266)
Increase (decrease) in:		
Accounts payable	(52,093)	13,905
Sales tax payable	(102)	165
Payroll taxes payable	(367)	5,569
Wages payable	(6,083)	(8,102)
Customer meter deposits	(1,010)	1,659
Net pension liability	94,500	138,514
Deferred inflows related to pension	(8,796)	(37,085)
Net Cash Provided By Operating Activities	\$ 899,783	\$ 1,114,551

See accompanying notes to financial statements.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

NATURE OF BUSINESS

Mena Water Utilities (the Utility) renders services on a user charge basis to the general public of Polk County, Arkansas, for the handling of domestic sewage, commercial/industrial waste, and domestic and commercial water. Under accounting principles generally accepted in the United States of America, the Utility is a discretely presented component unit of the City of Mena, Arkansas, (the City) for financial reporting purposes.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The Utility's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The Utility accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

b. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Utility. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

c. Income Tax Status

The Utility is exempt from income taxes as a governmental agency.

d. Cash Equivalents

For purposes of the statement of cash flows, the Utility considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents, including restricted cash.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

e. Investments

Investments are presented at fair value. Restricted investments, consist primarily of money market accounts designated for bond payments and debt service reserves. The Utility also has a money market account with unspent funds from the 2018 bond refunding for acquiring, installing, constructing and equipping betterments and improvements to the water and sewer system.

f. Accounts Receivable

Accounts receivable consists of sewer and water fees and surcharges billed to residential and commercial/industrial customers based on consumption. The Utility extends unsecured credit for services provided to its customers for a limited period of time. Accounts receivable are recorded net of estimated uncollectible amounts. The allowance for credit losses is estimated based on professional judgement and historical information and is \$14,338 and \$14,165 on October 31, 2021 and 2020, respectively.

g. Inventory

Inventories consist of miscellaneous parts, accessories, pipe and chemicals and are stated at the lower of cost or market using the first-in, first-out method.

h. Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expense in the year which services are consumed.

i. Capital Outlays and Depreciation

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Utility plant in service	5-40 years
Machinery and equipment	3-20 years

The Utility capitalizes all fixed assets with a useful life greater than one year.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

j. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position has a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and the reacquisition price. The Utility also recognizes deferred outflows of resources related to pensions.

In addition to liabilities, the statement of net position has a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Utility recognizes deferred inflows of resources related to pensions.

k. Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. After eighteen consecutive months of timely payments, these deposits are refundable to residential customers. For commercial/industrial customers, the deposits are refundable when the Utility no longer services the customer. The Utility uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

l. Compensated Absences

Employees earn vacation and sick pay in varying amounts based upon length of service with the Utility. Vacation must be used by the employees year-end anniversary date or it is lost. Employees can carryforward a maximum of forty-five unused sick days from year to year. Upon termination from the Utility, employees are paid their accumulated unused vacation. No unused accumulated sick pay is paid upon termination.

The Utility recognizes its obligation relating to employees' rights to receive compensation for future absences attributable to employees' service already rendered. These rights are accumulated and can be taken as compensation or, with supervisors approval, time and one half off work.

At October 31, 2021 and 2020, the Utility had \$18,407 and \$21,717 accrued for vacation and compensated absences.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

m. Net Position

Net position of the Utility are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other 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 are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets".

The Utility does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted amounts are available. Utility personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted.

n. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the Utility consist of water sales, sewage fees and fees for miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

o. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. Customers and Rates

a. Classes of Users

All customers whose premises are served in any manner by the Utility are classified as either residential, commercial, or industrial users. Customer classes are determined by the Utility and its Commission

The charges to each customer inside the Mena city limits are determined each month based on a rate schedule based on the volume of water used and treated in accordance with the rates in Schedule A below.

The charges to each customer outside the Mena city limits are determined each month based on the rate schedule based on the volume of water used and treated in accordance with the rates in Schedule B below.

b. Rate Structure

Schedule A - rates effective 1/1/21

Gallons	Water	Sewer
Up to 100	\$14.15 (minimum charge)	\$8.97 (minimum charge)
Next 900	\$3.71 per 1,000 gallons	\$8.97 per 1,000 gallons
Next 9,000	\$3.71 per 1,000 gallons	\$3.77 per 1,000 gallons
Remainder	\$3.27 per 1,000 gallons	\$3.77 per 1,000 gallons

Schedule A - rates effective 1/1/20

Gallons	Water	Sewer
Up to 100	\$12.15 (minimum charge)	\$8.97 (minimum charge)
Next 900	\$3.41 per 1,000 gallons	\$8.97 per 1,000 gallons
Next 9,000	\$3.41 per 1,000 gallons	\$3.77 per 1,000 gallons
Remainder	\$2.98 per 1,000 gallons	\$3.77 per 1,000 gallons

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

2. Customers and Rates (continued)

b. Rate Structure (continued)

Schedule B - rates effective 1/1/21

Gallons	Water	Sewer
Up to 100	\$17.50 (minimum charge)	\$12.22 (minimum charge)
Next 900	\$3.71 per 1,000 gallons	\$12.22 per 1,000 gallons
Next 9,000	\$3.71 per 1,000 gallons	\$4.22 per 1,000 gallons
Remainder	\$3.27 per 1,000 gallons	\$4.22 per 1,000 gallons

Schedule B - rates effective 1/1/20

Gallons	Water	Sewer
Up to 100	\$15.50 (minimum charge)	\$12.22 (minimum charge)
Next 900	\$3.41 per 1,000 gallons	\$12.22 per 1,000 gallons
Next 9,000	\$3.41 per 1,000 gallons	\$4.22 per 1,000 gallons
Remainder	\$2.98 per 1,000 gallons	\$4.22 per 1,000 gallons

The Utility charges \$0.40 each month per water meter in service for the Clean Water Act.

3. Deposits and Investments

Deposits

The Utility follows the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S Treasury, U.S. agencies or instrumentalities or the state of Arkansas. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Custodial credit risk is the risk that in the event of a bank failure, the Utility's deposits may not be recovered. At October 31, 2021 and 2020, all of the Utility's deposits were insured and/or uncollateralized. The bank balances and carrying amount of the Utility's deposits held were as follows:

Description	At October 31, 2021		At October 31, 2020	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 420,484	\$ 382,840	\$ 515,308	\$ 494,795
Cash on hand	-	750	-	750
Total	\$ 420,484	\$ 383,590	\$ 515,308	\$ 495,545

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

3. Deposits and Investments (continued)

Deposits as reported in the following statement of net position captions:

As Of October 31,	2021	2020
Cash and cash equivalents	\$ 125,480	\$ 177,144
Restricted checking and savings accounts	258,110	318,401
Total	\$ 383,590	\$ 495,545

Investments

The Utility does not have a formal investment policy, but does follow state laws and bond ordinance resolutions.

State statutes authorize the Utility to invest funds in direct obligations of the U.S. Government; obligations on which the principal and interest are fully guaranteed, or are fully secured, insured, or covered by commitments or agreements to purchase by the U.S. Government; obligations of agencies and instrumentalities created by an act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. Government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

Arkansas statutes also authorize the Board to invest no more than 20 percent of its capital base in corporate debt obligations; revenue bond issues of any U.S. state, municipality, or political subdivision; industrial development bonds for corporate obligors issued through any U.S. state or political subdivision; securities or interest in an open-end or closed-end management type investment company or trust registered under the Investment Company Act of 1940 with certain limitations; securities or interests issued, assumed or guaranteed by certain international banks; and uninsured demand, savings or time deposits or accounts or any depository institution chartered by the United States, any U.S. state or the District of Columbia.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

3. Deposits and Investments (continued)

Investments consist of accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due and for betterments and improvements to the water and sewer system. The investments are stated at fair market value, which approximates cost.

As of October 31, 2021	Cost	Market Value
<u>Bond Funds</u>		
Bank OZK Institutional Int Bearing Business (2017)	\$ 278,873	\$ 278,873
Bank OZK RNT DDA Institutional Money Market (2018)	235,160	235,160
<u>Debt Service Reserve Funds</u>		
Bank OZK RNT DDA Institutional Money Market	148,539	148,539
<u>Construction Funds</u>		
Bank OZK RNT DDA Institutional Money Market	169,468	169,468
Total	\$ 832,040	\$ 832,040

As of October 31, 2020	Cost	Market Value
<u>Bond Funds</u>		
Bank OZK Institutional Int Bearing Business (2017)	\$ 281,715	\$ 281,715
Bank OZK RNT DDA Institutional Money Market (2018)	238,371	238,371
<u>Debt Service Reserve Funds</u>		
Bank OZK RNT DDA Institutional Money Market	148,539	148,539
<u>Construction Funds</u>		
Bank OZK RNT DDA Institutional Money Market	299,507	299,507
Total	\$ 968,132	\$ 968,132

Interest Rate Risk

Interest rate risk is the risk the changes in interest of debt investments will adversely affect the fair value of an investment. The Utility's investments are not subject to interest rate risk as the investments are short-term in nature.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. All of the Utility's investments are covered by FDIC limits.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the Utility will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments held by the Utility or by an agent of the Utility are in the Utility's name.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

3. Deposits and Investments (continued)

The Utility's investments are categorized using fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categories are as follows:

Level 1 - Quoted prices for identical investments in active markets.

Level 2 - Quoted prices for identical investments in markets that are not active.

Level 3 - Unobservable inputs

The following table represents the Utility's investments that are measured at fair value on a recurring basis at October 31, 2021:

		Level 1		Level 2		Level 3		Total
Bank OZK RNT DDA								
Institutional Money Market	\$	553,167	\$	-	\$	-	\$	553,167
Bank OZK Institutional Int								
Bearing Business		278,873		-		-		278,873
Total	\$	832,040	\$	-	\$	-	\$	832,040

4. Restricted Accounts

Restricted accounts are for the following:

Depreciation Reserve Fund - for repairs, maintenance, betterments and improvements of the Utility

Bond Fund - for the payment of principal, interest and trustee fees on the bonds

Construction Fund - for capital improvements to the Utility

Debt Service Reserves - a reserve to pay principal and interest on the bonds if bond fund monies are not available.

Meter Deposit Account - holds refundable customer deposits

Restricted account balances are as follows:

As Of October 31,		2021		2020
2017 Debt Service Reserve	\$	166,549	\$	165,906
2017 Debt Service Fund		2,004		29,118
Depreciation Reserve Fund		15,331		49,337
Meter Deposit Account		74,226		74,040
Total restricted cash and cash equivalents	\$	258,110	\$	318,401

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

4. Restricted Accounts (continued)

Restricted investments are reported at fair market value and consist of the following:

As of October 31,	2021	2020
2018 Debt Service Reserve Fund	\$ 148,539	\$ 148,539
2018 Construction Fund	169,468	299,507
2017 Bond Fund	278,873	281,715
2018 Bond Reserve	235,160	238,371
Total restricted investments	\$ 832,040	\$ 968,132

5. Property, Plant and Equipment

Activity of capital assets consist of the following:

As Of	November 1, 2020	Additions	Retirements	October 31, 2021
Land	\$ 218,828	\$ -	\$ -	\$ 218,828
Utility plant in service	27,369,167	418,594	(10,353)	27,777,408
Machinery and equipment	1,032,922	8,325	-	1,041,247
Construction in progress	479,564	157,979	(95,724)	541,819
Total capital assets	29,100,481	584,898	(106,077)	29,579,302
Less accumulated depreciation				
Utility plant in service	16,031,208	780,321	(8,339)	16,803,190
Machinery and equipment	792,212	60,556	-	852,768
Total accumulated depreciation	16,823,420	840,877	(8,339)	17,655,958
Capital assets, net	\$ 12,277,061	\$ (255,979)	\$ (97,738)	\$ 11,923,344

As Of	November 1, 2019	Additions	Retirements	October 31, 2020
Land	\$ 6,540	\$ 212,288	\$ -	\$ 218,828
Utility plant in service	26,765,925	640,973	(37,731)	27,369,167
Machinery and equipment	991,102	48,894	(7,074)	1,032,922
Construction in progress	439,912	530,943	(491,291)	479,564
Total capital assets	28,203,479	1,433,098	(536,096)	29,100,481
Less accumulated depreciation				
Utility plant in service	15,266,274	783,162	(18,228)	16,031,208
Machinery and equipment	743,602	55,683	(7,073)	792,212
Total accumulated depreciation	16,009,876	838,845	(25,301)	16,823,420
Capital assets, net	\$ 12,193,603	\$ 594,253	\$ (510,795)	\$ 12,277,061

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

5. Property, Plant and Equipment (continued)

Construction in progress at October 31, 2021 is for the following projects:

Project Description	Balance 10/31/2021	Balance 10/31/2020	Estimated/Total Project Cost	Estimated Completion
Wastewater plant replacement and Sanitary Sewer Evaluation Survey (SSES) improvements and replacements	\$ 371,817	\$ 230,566	\$ 16,237,000	Fall 2024
Iron Forks Water Treatment Plant upgrades	164,902	155,705	15,162,500	Spring 2024
Manhole repairs	-	80,693	88,224	Complete
Drive-thru window repair	-	7,500	9,176	Complete
Other	5,100	5,100	unknown	unknown
Total	\$ 541,819	\$ 479,564		

The Wastewater plant replacement project is still in the planning phase. The Utility has submitted funding applications and is waiting on approval.

The Iron Forks Water Treatment Plant includes an upgrade of the clearwell as well as several other improvements at the facility. Funding has been approved for the project through loans from the United States Department of Agriculture and Rural Development totaling \$13,610,000 and a grant of \$1,552,500. The Utility is still finalizing design plans and anticipates seeking bids for the project in the fall of 2022.

6. Asset Retirement Obligation

The Utility adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during the year. As asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under the new accounting standard, the Utility must recognize an ARO when the liability is both incurred and reasonably estimable. A liability incurred is based on the existence of external laws, regulations, contracts or court judgements and the occurrence of an internal event that obligates the Utility to perform asset retirement activities. The Utility owning and operating a wastewater treatment plant (WWTP), and the existence of laws and regulations to decommission the WWTP thus falls within the scope of GASB 83.

The Utility's existing WWTP and collection system were constructed in 1970 and the Utility has determined that the WWTP has reached the end of its useful life. The Utility evaluated three options to resolve the deficiencies of the existing WWTP. The first two involve the repair and potential expansion of the existing WWTP and the third involves the construction of a new facility. The Utility has chosen to construct a new facility and purchased the land for a new WWTP in October 2020.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

6. Asset Retirement Obligation (continued)

The Utility has submitted funding for the new wastewater treatment facility but is still awaiting approval. The cost of the closing the current facility is largely dependent on sludge removal requirements as directed by the Arkansas Department of Energy and Environment's Division of Environmental Quality (ADEQ) as well as the cost to remediate the land. The Utility has not received formal guidance from the ADEQ nor made any decisions on land remediation as of the date of the financial statements. Although the Utility can make an estimate of the remaining life of the WWTP, it is not reporting an ARO on the Statement of Net Position because the Utility does not have an estimate of the potential liability.

7. Long-Term Debt

Long-term debt of the Utility consists of:

As of October 31,	2021	2020
Water and Sewer Refunding Revenue Bonds, Series 2017 - Payments are made in annual installments ranging from \$160,000 in 2017 to \$310,000 in 2029. Semi-annual interest payments are made with rates varying from 2.00% to 3.625%. The bonds are secured by revenues of the system.	\$ 2,430,000	\$ 2,670,000
Water and Sewer Refunding and Construction Revenue Bonds, Series 2018 - Payments are made in annual installments ranging from \$135,000 in 2019 to \$285,000 in 2037. Interest rates vary from 3.00% to 3.750% and are secured by revenues of the system.	3,740,000	3,905,000
City of Mena - Non-interest bearing loan in the amount of \$40,000 for the Utility to purchase a truck. Payments are made annually in the amount of \$13,333. The note matures in in December 2022.	13,333	26,667
John Deere Financial- Payments are made monthly in the amount \$1,035 including interest at 4.5%. The note matures in November 2024 and is secured by a backhoe.	34,791	45,389
Note payable - dated October 15, 2020 in the amount of \$190,000 for land for the new waste water treatment plant. 36 monthly payments commence November 15, 2020 in the amount of \$3,416.79 including interest at 2.99%. The remaining 23 payments will be adjusted using prevailing Prime Rate minus .25%, floating daily, with a floor of 2.99%. Note matures on October 15, 2025 and is secured by the property.	154,095	190,000
Total long-term debt	\$ 6,372,219	\$ 6,837,056

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

7. Long-Term Debt (continued)

As of October 31,	2021	2020
Total long-term debt	6,372,219	6,837,056
Less current maturities	471,307	464,735
Long-term debt	5,900,912	6,372,321
Less unamortized discounts	62,042	67,690
Long-term debt, net	\$ 5,838,870	\$ 6,304,631

Debt is scheduled to be repaid as follows:

October 31,	Bonds		Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2022	\$ 410,000	\$ 195,444	\$ 61,307	\$ 5,446	\$ 672,197
2023	420,000	184,509	49,601	3,819	657,929
2024	435,000	173,247	51,288	2,131	661,666
2025	445,000	160,519	40,023	746	646,288
2026	455,000	146,362	-	-	601,362
2027-2031	2,210,000	495,881	-	-	2,705,881
2032-2036	1,235,000	218,500	-	-	1,453,500
2037-2038	560,000	21,187	-	-	581,187
Total	\$ 6,170,000	\$ 1,595,649	\$ 202,219	\$ 12,142	\$ 7,980,010

Activity of long-term obligations consists of the following:

As Of	November 1, 2020	Additions	Retirements	October 31, 2021	Due Within One Year
2017 Series Bonds	\$ 2,670,000	\$ -	\$ 240,000	\$ 2,430,000	\$ 240,000
2018 Series Bonds	3,905,000	-	165,000	3,740,000	170,000
City of Mena	26,667	-	13,334	13,333	13,333
John Deere	45,389	-	10,598	34,791	11,080
Land note payable	190,000	-	35,905	154,095	36,894
Net pension liability	725,992	94,500	-	820,492	-
Total	\$ 7,563,048	\$ 94,500	\$ 464,837	\$ 7,192,711	\$ 471,307

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

7. Long-Term Debt (continued)

As Of	November 1, 2019	Additions	Retirements	October 31, 2020	Due Within One Year
Rural Development \$	658,422	\$ -	\$ 658,422	\$ -	\$ -
2017 Series Bonds	2,900,000	-	230,000	2,670,000	240,000
2018 Series Bonds	4,040,000	-	135,000	3,905,000	165,000
City of Mena	40,000	-	13,333	26,667	13,333
John Deere	55,500	-	10,111	45,389	10,593
Land note payable	-	190,000	-	190,000	35,809
Net pension liability	587,478	138,514	-	725,992	-
Total	\$ 8,281,400	\$ 328,514	\$ 1,046,866	\$ 7,563,048	\$ 464,735

Each of the Utility's outstanding notes from direct borrowings and direct placements contain different provisions for loan default including: outstanding principal and interest become immediately due and payable; appointing a receiver to administer the Utility on behalf of the issuer until all defaults have been cured; and assessing additional interest, penalties and other charges, and foreclose on any security.

8. Bond Discount Costs and Deferred Loss on Refunding

Bond discount costs incurred in connection with the issuance of the 2017 Series general obligation bonds are being amortized over 12 years. Bond discount costs incurred in connection with the issuance of the 2018 Water and Sewer Revenue Refunding Bonds are being amortized over 20 years. Amortization of the bond discounts totaled \$5,648 for both years ended October 31, 2021 and 2020, and are included in interest expense on the statement of revenues, expenses and changes in net position. The unamortized portion is netted with long-term debt.

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. The balance was \$110,179 and \$120,977 on October 31, 2021 and 2020, respectively and is reflected on the statement of net position as deferred outflows. Amortization of the deferred loss totaled \$10,798 for both years ended October 31, 2021 and 2020, and is included in interest on the statement of revenues, expenses and changes in net position.

9. Commitments and Contingencies

The Trust Indenture of the 2017 and 2018 Series Bonds contains a provision (the Rate Covenant) which requires the Utility to maintain their water rates at an amount sufficient to (1) pay all operation, repair and maintenance expenses, (2) make all required deposits into the Debt Service Reserve Fund, and (3) leave a balance equal to 120% of the debt service requirements for the current fiscal year of all outstanding Bonds and Parity obligations and to meet various other general requirements. For the years ended October 31, 2021 and 2020, the Utility had satisfied all the covenants of the Bond Trust Indenture, with the exception below.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

9. Commitments and Contingencies (continued)

The Utility was not calculating its required deposits into the depreciation reserve based upon total system revenues. The issue has been corrected and the Utility will make the appropriate monthly deposits going forward.

10. Arkansas Public Employees Retirement System

Plan Description

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

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

The state of Arkansas issues an annual report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201.

Summary of Significant Accounting Policies

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

Benefits Provided

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

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

10. Arkansas Public Employees Retirement System (continued)

Benefits Provided (continued)

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

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

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

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

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

Contributions

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701)(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). The Utility contributed 15.32% of compensation for the APERS fiscal years ended June 30, 2020 and 2019. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

Contributions made by the Utility were \$95,338 and \$88,232 for the years ended October 31, 2021 and 2020, respectively.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

10. Arkansas Public Employees Retirement System (continued)

APERS Fiduciary Net Position

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

Timing of the Valuation

The collective Net Pension Liability was measured as of June 30, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Each employer's proportion of the Net Pension Liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers. Based on this information, the Utility's proportionate share was 0.02865261%

There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of June 30, 2020 and the Utility's report ending date of October 31, 2021, that would have had a significant impact on the net pension liability.

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Discount Rate	7.15%
Wage Inflation Rate	3.25%
Salary Increases	3.25% – 9.85%
Investment Rate of Return	7.15%
Mortality Rate Table	RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017

All other actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2017, and were applied to all prior periods included in the measurement.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

10. Arkansas Public Employees Retirement System (continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return 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 current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2020 to 2029 were based upon capital market assumptions provided by the plan's investment consultant. For each major asset class that is included in the pension plan's current asset allocation as of June 30, 2020, these best estimates are summarized in the following table:

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

Single Discount Rate

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

10. Arkansas Public Employees Retirement System (continued)

Single Discount Rate (continued)

For the purpose of the June 30, 2020 valuation, the expected rate of return on pension plan investments is 7.15%; the municipal bond rate is 2.45% (based on the weekly rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"; and the resulting single discount rate is 7.15%.

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

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1% lower and 1% higher than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate

	1% Decrease	Current Rate	1% Increase
	6.15%	7.15%	8.15%
Net Pension Liability	\$ 1,249,670	\$ 820,492	\$ 466,323

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

At October 31, 2021 the Utility has an accrued APERS liability of \$2,265 for the Utility's legally required contribution.

The Utility's proportionate share of pension expense was \$141,615 and \$152,944 for the years ended October 31, 2021 and 2020, respectively. At October 31, 2021, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

10. Arkansas Public Employees Retirement System (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,892	\$ 543
Changes in assumptions	10,280	14,058
Net difference between projected and actual earnings on pension plan investments	86,818	-
Changes in proportion and differences between employer contribution and proportionate share of contributions	38,604	41,135
Utility contributions subsequent to the measurement date	126,752	-
Total	\$ 273,346	\$ 55,736

\$126,752 reported as deferred outflows of resources related to pensions resulting from Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended October 31, 2022, any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended October 31,	Net Increase (Decrease) in Pension Expense
2022	\$ 3,028
2023	32,836
2024	29,690
2025	25,304
	\$ 90,858

11. Interfund Transfers

The Utility received transfers from the City for the following:

Year Ending October 31,	2021	2020
Sewer repairs and improvements	\$ 17,532	\$ 70,692
Principal and interest on Rural Development Loan	-	663,801
	17,532	734,493
Less: Utility receivable for debt service reserve held by City	-	(65,617)
Total transfers from City	\$ 17,532	\$ 668,876

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2021 AND 2020

12. Concentrations Of Credit Risk

Financial instruments that potentially subject the Utility to credit risk consist primarily of accounts receivable. The Utility sells only to businesses and individuals within the same geographic region.

13. Risk Management

The Utility is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, and employee health, dental and accident benefits. Commercial insurance and state pool coverage is purchased for claims arising from such matters other than business interruption. Settled claims have not exceeded coverage in any of the three preceding years and there has been no significant reduction in coverage in both fiscal years 2021 and 2020.

14. COVID-19

The Coronavirus Disease 2019 (COVID-19), declared by the World Health Organization as a pandemic in March 2020, continues to cause worldwide economic disruption and uncertainty. In connection with the outbreak, governments and organizations have imposed containment and mitigation efforts involving quarantines, social distancing and limits on public gatherings. Utility offices have remained open throughout the pandemic to continue servicing customers. Global supply chain issues caused some minor issues with chemicals and supplies. The Utility worked with any customers struggling to pay their by providing special payment arrangements. Fortunately, the pandemic has not had a significant financial impact on the Utility. The Utility will continue to monitor its operations, liquidity and capital resources to minimize the impact of this unprecedented situation.

15. Subsequent Events

The Utility has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended October 31, 2021 through March 28, 2022, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MENA WATER UTILITIES

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED OCTOBER 31, 2021

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Utility's proportion of the net pension liability	0.02865261%	0.03009257%	0.02663172%	0.02945749%	0.02924532%	0.02906117%	0.02875090%
Utility's proportionate share of the net pension liability	820,492 \$	725,992 \$	587,478 \$	761,223 \$	699,357 \$	535,229 \$	407,950
Utility's covered-employee payroll	559,062 \$	565,750 \$	498,841 \$	530,916 \$	529,874 \$	515,482 \$	508,320
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	146.76%	128.32%	117.77%	143.38%	131.99%	103.83%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Schedule of Required Contributions

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contribution	85,648 \$	86,673 \$	73,579 \$	76,983 \$	76,832 \$	76,105 \$	75,638
Contributions in relation to the contractually required contribution	(85,648)	(86,673)	(73,579)	(76,983)	(76,832)	(76,105)	(75,638)
Contribution deficiency (excess)	- \$	- \$	- \$	- \$	- \$	- \$	-
Utility's covered-employee payroll	559,062 \$	565,750 \$	498,841 \$	530,916 \$	529,874 \$	515,482 \$	508,320
Contributions as a percentage of covered-employee payroll	15.32%	15.32%	14.75%	14.50%	14.50%	14.76%	14.88%

See independent auditor's report.

MENA WATER UTILITIES

REQUIRED SUPPLEMENTAL INFORMATION FOR COST-SHARING EMPLOYER PLANS ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FOR THE YEAR ENDED OCTOBER 31, 2021

Notes to Required Supplemental Information for Cost-Sharing Employer Plans

1. The schedules are intended to show 10 years - additional information will be presented as it becomes available.

2. Changes in benefits: None

3. Changes in actuarial assumptions:

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Single Discount Rate	7.15%	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Investment Rate of Return	7.15%	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Municipal Bond Rate	2.45%	3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
Source: 20-Bond GO Index							
Inflation	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.25% wage 2.50% price	3.75% wage 2.75% price
Salary Increases	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.25% - 9.85%	3.75% - 10.35%
Mortality Table	Based on RP-2006 weighted generational mortality tables for healthy annuitant disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017	Based on RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017.	Based on RP-2014 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using scale MP-2017.	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females	Based on RP-2000 Combined healthy mortality table, projected to 2020 using Projection Scale BB, set forward 2 years for males and 1 year for females

See independent auditor's report.

SUPPLEMENTAL INFORMATION

MENA WATER UTILITIES

SCHEDULE OF REVENUES, EXPENSES - SEWER ONLY

FOR THE YEARS ENDED OCTOBER 31,	2021	2020
Operating Revenue		
Measured sewer	\$ 765,770	\$ 761,590
Total Operating Revenue	765,770	761,590
Operating Expenses		
Advertising	758	680
Employee benefits	77,401	74,251
Depreciation	280,000	281,880
Insurance	20,244	16,683
Dues and fees	13,730	7,514
Office	6,012	4,965
Professional fees	16,125	17,073
Contractual services	2,226	1,950
Lab expense	33,921	33,724
Vehicle	10,679	12,536
Repairs and maintenance	56,115	101,208
Salaries	220,937	200,735
Supplies	4,690	5,253
Chemicals	78,517	54,208
Education and safety	10,809	2,879
Utilities and telephone	88,695	78,144
Payroll taxes	18,184	16,650
Other operating expenses	12,982	10,575
Total Operating Expenses	952,025	920,908
Net Loss From Operations	(186,255)	(159,318)
Other Income (Expenses)		
Interest income	1,109	5,269
Gain (loss) on disposition of equipment	-	(9,004)
Interest expense	-	(3,560)
Total Net Other Income (Expenses)	1,109	(7,295)
Net Loss Before Transfers	(185,146)	(166,613)
Operating Transfers	17,352	668,876
Change in Net Assets	\$ (167,794)	\$ 502,263

See independent auditors' report.

ADDITIONAL REPORT



Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On an Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Commissioners
Mena Water Utilities
Mena, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mena Water Utilities, as of and for the year ended October 31, 2021, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated March 28, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
March 28, 2022