

MENA WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF MENA, ARKANSAS
AUDITED FINANCIAL STATEMENTS
OCTOBER 31, 2023 AND 2022



MENA WATER UTILITIES

OCTOBER 31, 2023 AND 2022

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Independent Auditor's Report

To the Commissioners
Mena Water Utilities
Mena, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mena Water Utilities, as of and for the years ended October 31, 2023 and 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mena Water Utilities as of October 31, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted on the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mena Water Utilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City's water and sewer component unit and do not purport to, and do not, present fairly the financial position of the City Mena, Arkansas, as of October 31, 2023 and 2022, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mena Water Utilities internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and information for cost-sharing pension plans on pages 4-8 and 33-34 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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

Management is responsible for the other information included in the financial statements. The other information comprises the schedule of revenues and expenses – sewer only, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, 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 25, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MENA WATER UTILITIES
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2023**

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, 2023. 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, 2023 with a net position balance of \$6,629,792.
- The change in net position or net income of the Utility was a net loss of \$52,730.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2023, total cash decreased by \$106,439. Cash provided from the day-to-day operations totaled \$844,745. Cash used by capital and related financing activities totaled \$772,931. This amount was largely due to scheduled debt service of \$692,318 and fixed asset purchases of \$1,168,707 purchased using transfers from the City of Mena totaling \$1,088,094. Cash used in investing activities totaled \$179,253, primarily due to the purchase of a \$200,000 certificate of deposit, offset by interest earning of \$20,747.

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, 2023. 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, 2023**

CONDENSED FINANCIAL INFORMATION

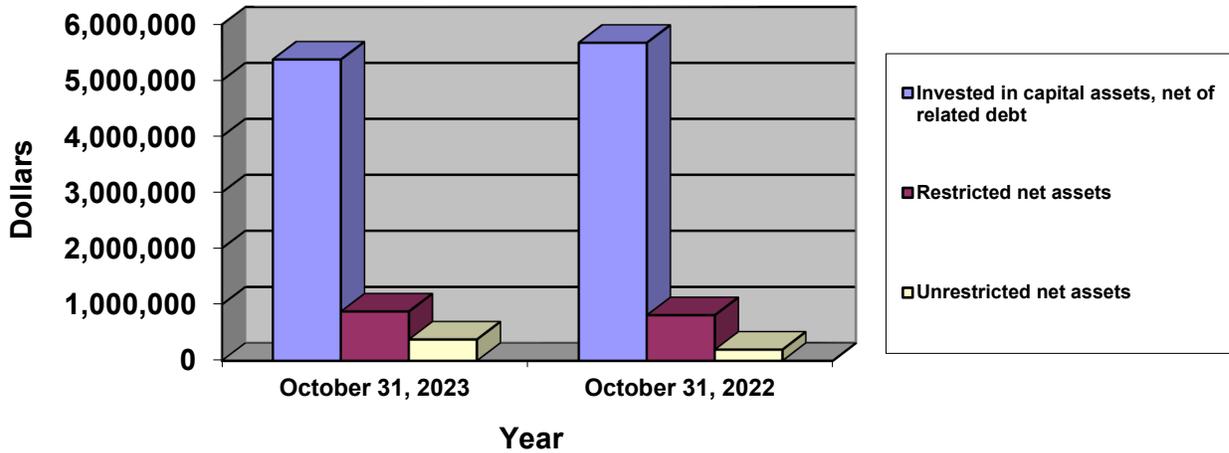
Condensed financial information from the statement of net assets as of October 31, 2023 and 2022 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	October 31,	
	2023	2022
Current assets	\$ 2,244,370	\$ 2,098,106
Capital assets, net	12,143,199	11,811,006
Total assets	<u>14,387,569</u>	<u>13,909,112</u>
Deferred outflows	<u>388,495</u>	<u>358,994</u>
Current liabilities	820,608	971,535
Long-term debt	<u>7,309,872</u>	<u>6,579,630</u>
Total liabilities	<u>8,130,480</u>	<u>7,551,165</u>
Deferred inflows	<u>15,792</u>	<u>34,419</u>
Net assets:		
Net investment in capital assets	5,374,514	5,673,620
Restricted	876,469	810,649
Unrestricted	<u>378,809</u>	<u>198,253</u>
Total net assets	<u>\$ 6,629,792</u>	<u>\$ 6,682,522</u>
Operating revenues	<u>\$ 3,296,661</u>	<u>\$ 3,204,904</u>
Operating expenses, excluding depreciation	2,309,458	2,023,742
Depreciation	<u>836,514</u>	<u>840,980</u>
Total operating expenses, including depreciation	<u>3,145,972</u>	<u>2,864,722</u>
Operating income	150,689	340,182
Nonoperating revenues/(expenses)	(204,419)	(212,460)
Transfers	<u>1,000</u>	<u>60,276</u>
Change in net assets	(52,730)	187,998
Beginning of year net assets	<u>6,682,522</u>	<u>6,494,524</u>
End of year net assets	<u>\$ 6,629,792</u>	<u>\$ 6,682,522</u>

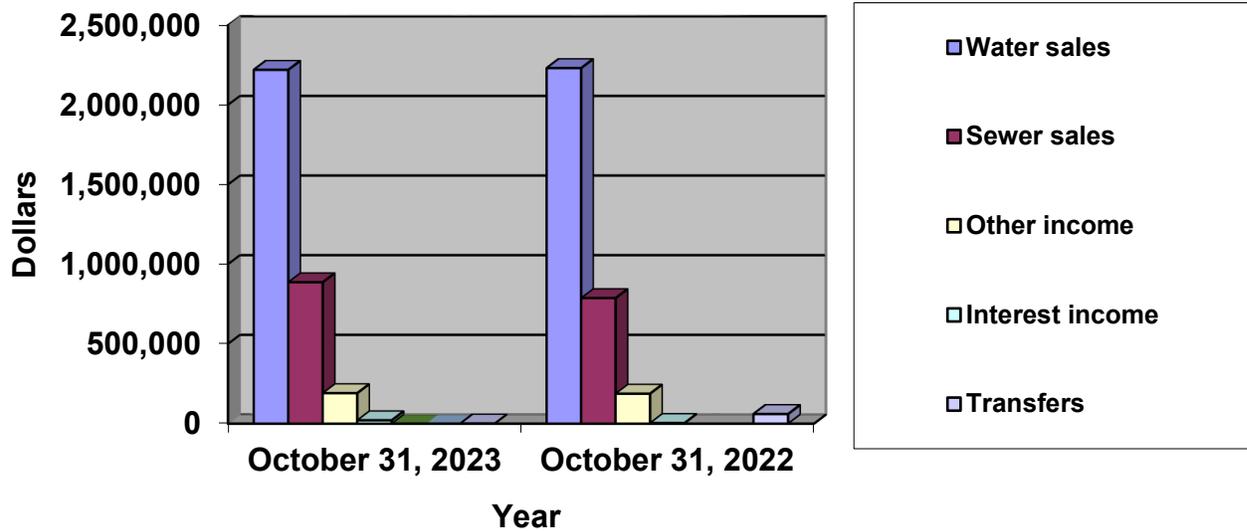
**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2023**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

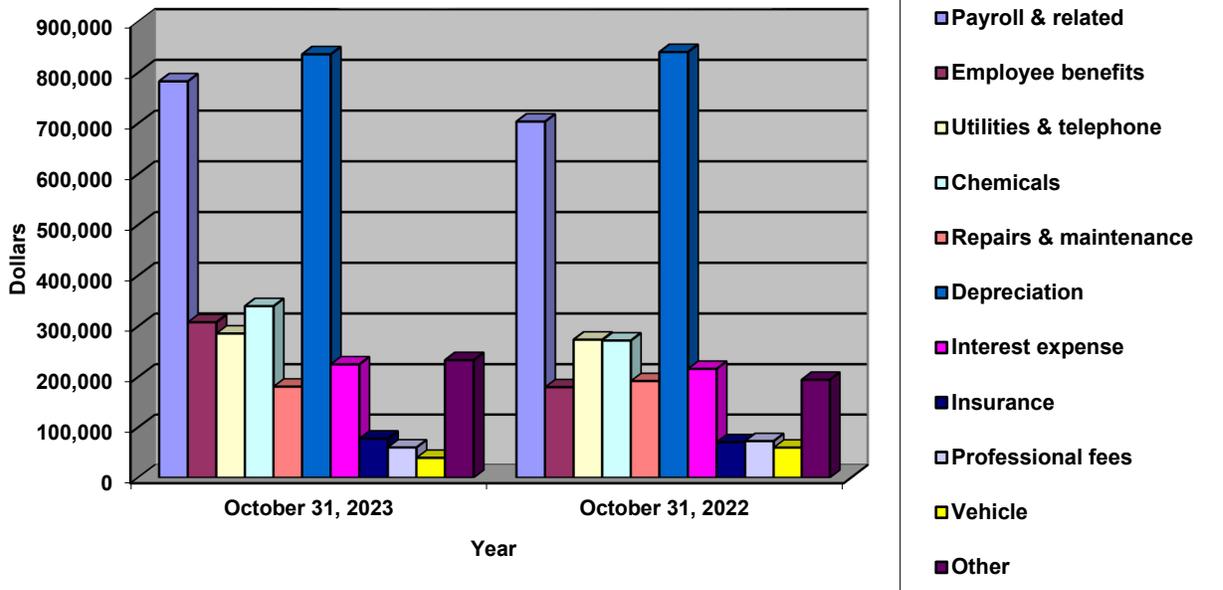


Revenue of the Utility presented in a graph format



**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2023**

Expenses of the Utility presented in graph format



CAPITAL ASSETS

The Utility's capital assets as of October 31, 2023 and 2022 amounted to \$31,476,651 and \$30,307,944 respectively. This investment in capital assets includes the utility plant and distribution system, machinery and equipment, and construction in process. Capital asset additions totaled \$1,168,707. Of this amount, \$95,583 was for the establishment of new water or sewer taps. An additional \$961,219 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 \$2,020,655 at October 31, 2023, for two significant projects. The first is for improvements at the Iron Forks Water Treatment Plant. This project is estimated to cost approximately \$20.9 million. The second project is for a new wastewater treatment plant. Due to the unexpected cost of constructing a new plant, the Utility is currently evaluating other alternatives. Both projects will be funded with grants and loans.

LONG-TERM DEBT

The Utility's total debt at October 31, 2023 was \$6,908,014 compared to \$6,293,161 as of October 31, 2022. Total debt service for the year ended October 31, 2023 was \$692,318 of which \$473,241 was for scheduled principal payments.

On September 30, 2022, the City financed Water and Revenue Bonds totaling \$1,490,100 with a local bank to fund the planning and development phase of the new wastewater treatment plant project. The Utility had borrowed \$1,088,095 on the loan as of October 31, 2023. As discussed earlier, this project is currently being re-evaluated.

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2023**

CHANGE IN NET POSITION

For the year ended October 31, 2023, the Utility's change of net position was a decrease of \$52,730. Operating revenues of \$3,296,661 increased by \$91,757 (2.9%) from prior year primarily due to an increase in rates. Operating expenses of \$3,145,972 increased by \$269,169 (9.4%). \$84,150 of this was caused by an increase in non-controllable pension expense. Other significant increases were salaries and wages totaling \$73,202 (8.9%) and chemical and lab fees totaling \$94,365 (31%).

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,	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 433,561	\$ 587,082
Restricted cash	1,032,109	985,027
Certificate of deposit	200,000	-
Accounts receivable, net of allowance for credit losses	313,274	294,791
Inventory	255,030	221,096
Prepaid expenses	10,396	10,110
Total Current Assets	2,244,370	2,098,106
Net Capital Assets	12,143,199	11,811,006
Total Assets	14,387,569	13,909,112
Deferred Outflows		
Deferred loss on refunding, net of amortization	88,583	99,381
Deferred outflows of resources related to pension	299,912	259,613
Total Deferred Outflows	388,495	358,994
Total Assets and Deferred Outflows of Resources	\$ 14,776,064	\$ 14,268,106
Liabilities		
Current Liabilities		
Accounts payable	\$ 111,827	\$ 258,634
Sales tax payable	16,321	15,467
Payroll taxes payable	5,458	4,630
Wages payable	46,241	49,988
Accrued interest	89,613	99,970
Customer meter deposits	64,863	73,245
Current portion of long-term debt	486,285	469,601
Total Current Liabilities	820,608	971,535
Noncurrent liabilities:		
Long-term debt, net of unamortized bond discounts	6,370,983	5,767,166
Net pension liability	938,889	812,464
Total Noncurrent Liabilities	7,309,872	6,579,630
Total Liabilities	8,130,480	7,551,165
Deferred Inflows		
Deferred inflows of resources related to pension	15,792	34,419
Total Deferred Inflows	15,792	34,419
Net Position		
Net investment in capital assets	5,374,514	5,673,620
Restricted	876,469	810,649
Unrestricted	378,809	198,253
Total Net Position	6,629,792	6,682,522
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 14,776,064	\$ 14,268,106

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED OCTOBER 31,	2023	2022
Operating Revenue		
Metered water	\$ 2,219,679	\$ 2,230,675
Measured sewer	886,118	786,567
Other	190,864	187,662
Total Operating Revenue	3,296,661	3,204,904
Operating Expenses		
Salaries	727,233	654,031
Employee benefits	308,179	179,883
Payroll taxes	55,916	49,821
Chemicals	339,962	272,202
Lab expense	58,370	31,765
Utilities and telephone	286,011	273,883
Repairs and maintenance	181,047	192,062
Vehicle	39,532	59,791
Insurance	77,785	70,636
Dues and fees	60,430	59,124
Office	24,841	23,880
Professional fees	60,176	72,768
Billing	32,762	30,028
Contractual services	10,255	16,530
Information technology	9,153	534
Education and safety	22,237	11,419
Supplies	8,965	9,632
Advertising	1,918	13,394
Depreciation	836,514	840,980
Other operating expenses	4,686	2,359
Total Operating Expenses	3,145,972	2,864,722
Net Income From Operations	150,689	340,182
Other Income (Expenses)		
Interest income	20,747	3,845
Interest expense, inclusive of amortization of bond discounts and amortization of deferred amount on advance refunding	(225,166)	(216,305)
Total Net Other Income (Expenses)	(204,419)	(212,460)
Net Income (Loss) Before Transfers	(53,730)	127,722
Operating Transfers	1,000	60,276
Change in Net Position	(52,730)	187,998
Net Position at Beginning of Year	6,682,522	6,494,524
Net Position at End of Year	\$ 6,629,792	\$ 6,682,522

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31,	2023	2022
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 3,088,168	\$ 2,981,747
Other receipts	190,864	187,662
Cash payments to suppliers for goods and services	(1,703,307)	(1,227,245)
Cash payments to employees for services	(730,980)	(642,176)
Net Cash Provided By Operating Activities	844,745	1,299,988
Cash Flows From Non-Capital and Related Financing Activities		
Transfers from the City of Mena	1,000	60,276
Net Cash Provided By Non-Capital and Related Financing Activities	1,000	60,276
Cash Flows From Capital and Related Financing Activities		
Acquisition of property, plant and equipment	(1,168,707)	(728,642)
Repayment of debt	(473,241)	(472,266)
Interest paid on debt	(219,077)	(199,930)
Transfers from the City of Mena for asset acquisition	1,088,094	393,208
Net Cash Used In Capital and Related Financing Activities	(772,931)	(1,007,630)
Cash Flows From Investing Activities		
Purchase of certificate of deposit	(200,000)	-
Interest income	20,747	3,845
Net Cash Provided (Used) By Investing Activities	(179,253)	3,845
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	(106,439)	356,479
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	1,572,109	1,215,630
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 1,465,670	\$ 1,572,109
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 433,561	\$ 587,082
Restricted cash	1,032,109	985,027
Total Cash, Cash Equivalents and Restricted Cash	\$ 1,465,670	\$ 1,572,109

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31,	2023	2022
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net income from operations	\$ 150,689	\$ 340,182
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	836,514	840,980
(Increase) decrease in:		
Trade accounts receivable	(18,483)	(38,595)
Inventory	(33,934)	(28,160)
Prepaid expenses	(286)	2,253
Deferred outflows related to pension	(40,299)	13,733
Increase (decrease) in:		
Accounts payable	(146,807)	186,132
Sales tax payable	854	3,100
Payroll taxes payable	828	(2,377)
Wages payable	(3,747)	11,855
Customer meter deposits	(8,382)	230
Net pension liability	126,425	(8,028)
Deferred inflows related to pension	(18,627)	(21,317)
Net Cash Provided By Operating Activities	\$ 844,745	\$ 1,299,988

See accompanying notes to financial statements.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

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

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.

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.

Income Tax Status

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

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, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consists of water and sewer 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 \$17,534 and \$16,498 on October 31, 2023 and 2022, respectively. Interest is not charged on past due accounts.

Inventory

Inventories consist of miscellaneous parts, accessories, pipe and chemicals. The amount recorded in the accompanying financial statements is estimated at cost, which approximates market, using the first-in, first-out method. The cost of inventory is recognized as an expense when used (consumption method).

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.

Capital Assets and Depreciation

Capital assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. 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.

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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

Deferred Outflows / Inflows of Resources (continued)

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.

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.

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, 2023 and 2022, the Utility had \$20,267 and \$25,367 accrued for vacation and compensated absences.

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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

Net Position

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 investment 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 net position amounts, restricted resources are considered spent before unrestricted.

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.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued the following new accounting standards which became effective or portions thereof became effective during the Utility's fiscal year.

GASB Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset for a period of time in an exchange or exchange-like transaction. The purpose of this statement is to improve financial reporting issues related to PPPs.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance and financial reporting for subscription-based technology arrangements (SBITAs). The statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments; and (4) requires note disclosures regarding a SBITA.

These statements did not have any impact on the Utility's financial statements.

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.

Prior Period Adjustments / Reclassifications

Two prior period adjustments were made to the 2022 financial statements. Due to the availability of APERS reports, rather than record two years of pension activity, a prior period adjustment was made to reflect APERS 2022 activity in 2022. The second adjustment was to reclass a transfer received from the City from operating transfer income to long-term debt. The effect on the 2022 financial statements was as follows:

	<u>Original 2021</u> <u>Balance</u>	<u>Change</u>	<u>Restated 2021</u> <u>Balance</u>
Statement of Net Position			
Deferred outflows of resources related to pension	\$ 204,412	\$ 55,201	\$ 259,613
Long-term debt, net of unamortized bond discounts	5,534,088	233,078	5,767,166
Net pension liability	239,368	573,096	812,464
Deferred inflows of resources related to pension	455,924	(421,505)	34,419
Total net position	7,011,990	(329,468)	6,682,522
Statement of Revenues, Expenses, and Changes in Net Position			
Employee benefit expense	\$ 83,493	\$ 96,390	\$ 179,883
Operating transfers income	293,354	(233,078)	60,276
Change in net position	517,466	(329,468)	187,998

In addition, certain 2022 amounts have been reclassified in order to conform with the 2023 financial statement presentation. Net position and changes in net position are unchanged due to these reclassifications.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

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 1/1/23

Gallons	Water	Sewer
Up to 100	\$21.50 (minimum charge)	\$19.00 (minimum charge)
Next 900	\$3.70 per 1,000 gallons	\$19.00 per 1,000 gallons
Over 1,000	\$3.70 per 1,000 gallons	\$5.30 per 1,000 gallons

Schedule A - rates effective 1/1/22

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 B - rates effective 1/1/23

Gallons	Water	Sewer
Up to 100	\$25.50 (minimum charge)	\$25.90 (minimum charge)
Next 900	\$3.70 per 1,000 gallons	\$25.90 per 1,000 gallons
Over 1,000	\$3.70 per 1,000 gallons	\$5.30 per 1,000 gallons

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

2. Customers and Rates (continued)

b. Rate Structure (continued)

Schedule B - rates effective 1/1/22

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

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

3. Deposits in Financial Institutions

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

State statutes generally require that municipal funds be deposited in federally insured banks located in the state of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in direct obligations of the United States of America, the principal and interest of which are fully guaranteed by the United States government.

Deposits

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, 2023 and 2022, 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, 2023		At October 31, 2022	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 809,071	\$ 760,292	\$ 746,764	\$ 724,560
Collateralized	704,628	704,628	846,799	846,799
Cash on hand	-	750	-	750
Total	\$ 1,513,699	\$ 1,465,670	\$ 1,593,563	\$ 1,572,109

Deposits as reported in the following Statement of Net Position captions:

As Of October 31,	2023	2022
Cash and cash equivalents	\$ 433,561	\$ 587,082
Restricted checking and savings accounts	1,032,109	985,027
Total	\$ 1,465,670	\$ 1,572,109

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

3. Deposits in Financial Institutions (continued)

Investments

Investments consist of a certificate of deposit which is stated at cost, which approximates market.

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 limits its exposure to interest rate risk by investing in certificates of deposit that are short-term in nature. The Utility's certificate of deposit matures within one year.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Utility's investments at October 31, 2023 are FDIC insured

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty the City 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 City or by an agent of the City are in the City's name.

Fair Value Measurement

The District'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 District's investments that are measured at fair value on a recurring basis at October 31, 2023:

	Level 1	Level 2	Level 3	Total
Certificate of deposit	\$ 200,000	\$ -	\$ -	200,000
Total	\$ 200,000	\$ -	\$ -	200,000

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

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,	2023	2022
2017 Bond Fund	\$ 288,682	\$ 283,081
2017 Debt Service Reserve	170,286	167,117
2018 Bond Fund	284,702	270,054
2018 Debt Service Reserve Fund	148,539	148,539
Depreciation Reserve Fund	73,872	41,768
Meter Deposit Account	66,028	74,468
Total restricted cash and cash equivalents	\$ 1,032,109	\$ 985,027

5. Capital Assets

Activity of capital assets consist of the following:

As Of	November 1, 2022	Additions	Retirements	October 31, 2023
Land	\$ 218,828	\$ -	\$ -	\$ 218,828
Utility plant in service	27,988,433	168,511	-	28,156,944
Machinery and equipment	1,041,247	38,977	-	1,080,224
Construction in progress	1,059,436	961,219	-	2,020,655
Total capital assets	30,307,944	1,168,707	-	31,476,651
Less accumulated depreciation				
Utility plant in service	17,585,370	781,859	-	18,367,229
Machinery and equipment	911,568	54,655	-	966,223
Total accumulated depreciation	18,496,938	836,514	-	19,333,452
Capital assets, net	\$ 11,811,006	\$ 332,193	\$ -	\$ 12,143,199

MENA WATER UTILITIES
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2023 AND 2022

5. Capital Assets (continued)

As Of	November 1, 2021	Additions	Retirements	October 31, 2022
Land	\$ 218,828	\$ -	\$ -	\$ 218,828
Utility plant in service	27,777,408	211,025	-	27,988,433
Machinery and equipment	1,041,247	-	-	1,041,247
Construction in progress	541,819	517,617	-	1,059,436
Total capital assets	29,579,302	728,642	-	30,307,944
Less accumulated depreciation				
Utility plant in service	16,803,190	782,180	-	17,585,370
Machinery and equipment	852,768	58,800	-	911,568
Total accumulated depreciation	17,655,958	840,980	-	18,496,938
Capital assets, net	\$ 11,923,344	\$ (112,338)	\$ -	\$ 11,811,006

Construction in progress at October 31, 2023 is for the following projects:

Project Description	Balance 10/31/2023	Balance 10/31/2022	Estimated/Total Project Cost	Estimated Completion
Wastewater plant replacement and Sanitary Sewer Evaluation Survey (SSES) improvements and replacements	\$ 1,306,415	\$ 717,940	\$ unknown	unknown
Iron Forks Water Treatment Plant upgrades	679,066	306,322	20,912,500	Summer 2025
Meter system upgrade	30,074	30,074	600,000	2028
Other	5,100	5,100	unknown	unknown
Total	\$ 2,020,655	\$ 1,059,436		

The Wastewater plant replacement project is still in the planning stages. The bid for the new facility came in significantly more than budget so the Utility is evaluating other alternatives, including making improvements to the existing system. The Utility has secured funding of \$1,490,100 to help finance the planning and development phase of the project (see Note 7). The remaining balance of the project will be funded with a grant totaling \$3,256,000, American Rescue Plan Act grant funds totaling \$5 million and loans. All of the funding for the project has been approved.

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 loans, grant funds of \$1,552,500, and an American Rescue Plan grant totaling \$5 million. The project is estimated to be completed in the summer of 2025.

The meter system upgrade will be phasing out the remote radio read system to a drive by system. The meters have been on back-order for over a year and the Utility is waiting to receive the metes to continue. The estimated cost will be 600,000 and is estimated to be completed in 2028.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

6. Asset Retirement Obligation

As asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under GASB Statement No. 83, *Certain Asset Retirement Obligations*, 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 had originally chosen to construct a new facility and purchased the land for a new WWTP in October 2020. However, as the estimated cost of construction has come in much higher than anticipated, the Utility is re-evaluating that decision.

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. The Utility is not reporting an ARO on the Statement of Net Position as the estimated useful life of the WWTP is now uncertain and the Utility does not have an estimate of the potential liability.

7. Long-Term Debt

On September 20, 2022, the City of Mena issued \$1,490,100 in Water and Sewer Revenue Bonds that were purchased by a local bank. The bonds were issued to finance a portion of the costs of the planning and design phase of the construction of betterments and improvements to the sewer facilities.

Long-term debt of the Utility consists of:

As of October 31,	2023	2022
Water and Sewer Refunding Revenue Bonds, Series 2017, in the amount of \$3,285,000. 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.	\$ 1,945,000	\$ 2,190,000
Water and Sewer Refunding and Construction Revenue Bonds, Series 2018, in the amount of \$4,040,000. 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.	3,395,000	3,570,000

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

7. Long-Term Debt (continued)

As of October 31,	2023	2022
John Deere Financial - Loan in the amount of \$55,000 for the purchase of a backhoe. Payments are made monthly in the amount of \$1,035 including interest at 4.5%. The note matures in November 2024 and is secured by the backhoe that has a carrying value of \$22,917 at October 31, 2022.	12,121	23,708
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 \$3,417 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%. The note matures on October 15, 2025 and is secured by the property.	77,235	116,245
2022 Bond payable - dated September 20, 2022 in the amount of \$1,490,100 for pre-construction expenses for the wastewater plant replacement project. Monthly payments of interest only at 2.5% until September 30, 2025 when the entire principal payment is due. The bonds are secured by revenues of the system.	1,478,658	393,208
Total long-term debt	\$ 6,908,014	\$ 6,293,161
Less current maturities	486,285	469,601
Long-term debt	6,421,729	5,823,560
Less unamortized discounts	50,746	56,394
Long-term debt, net	\$ 6,370,983	\$ 5,767,166

Debt is scheduled to be repaid as follows:

October 31,	Bonds		Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2024	\$ 435,000	\$ 173,247	\$ 51,285	\$ 39,100	\$ 698,632
2025	445,000	160,519	1,516,729	36,585	2,158,833
2026	455,000	146,362	-	-	601,362
2027	475,000	131,683	-	-	606,683
2028	490,000	115,867	-	-	605,867
2029-2033	1,715,000	361,662	-	-	2,076,662
2034-2038	1,325,000	126,356	-	-	1,451,356
Total	\$ 5,340,000	\$ 1,215,696	\$ 1,568,014	\$ 75,685	\$ 8,199,395

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

7. Long-Term Debt (continued)

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, 2023 and 2022, 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 \$88,583 and \$99,381 on October 31, 2023 and 2022, 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, 2023 and 2022, and is included in interest on the Statement of Revenues, Expenses and Changes in Net Position.

9. Changes in Long-Term Liabilities

Activity of long-term obligations consists of the following:

As Of	November 1, 2022	Additions	Retirements	October 31, 2023	Due Within One Year
2017 Series Bonds \$	2,190,000	\$ -	\$ 245,000	\$ 1,945,000	\$ 255,000
2018 Series Bonds	3,570,000	-	175,000	3,395,000	180,000
WWTP loan	393,208	1,088,094	2,644	1,478,658	-
John Deere	23,708	-	11,587	12,121	12,121
Land note payable	116,245	-	39,010	77,235	39,164
Net pension liability	812,464	126,425	-	938,889	-
Total	\$ 7,105,625	\$ 1,214,519	\$ 473,241	\$ 7,846,903	\$ 486,285

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

9. Changes in Long-Term Liabilities (continued)

As Of	November 1, 2021	Additions	Retirements	October 31, 2022	Due Within One Year
2017 Series Bonds	\$ 2,430,000	\$ -	\$ 240,000	\$ 2,190,000	\$ 245,000
2018 Series Bonds	3,740,000	-	170,000	3,570,000	175,000
WWTP loan	-	393,208	-	393,208	-
City of Mena	13,333	-	13,333	-	-
John Deere	34,791	-	11,083	23,708	11,589
Land note payable	154,095	-	37,850	116,245	38,012
Net pension liability	820,492	-	8,028	812,464	-
Total	\$ 7,192,711	\$ 393,208	\$ 480,294	\$ 7,105,625	\$ 469,601

10. 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 to meet various other general requirements. For the years ended October 31, 2023 and 2022, the Utility had satisfied all the covenants of the Bond Trust Indenture, with the exception below.

11. 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 thirteen 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; 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, and four additional board positions that were added in Act 868 of the 2021 State of Arkansas legislative session. All of these four positions are appointed by the State of Arkansas Legislature. Two of these positions represent retirees with one being appointed by the House of Representatives and the other appointed by the Senate. The other two positions represent retired law enforcement with one being appointed by the House of Representatives and the other appointed by the Senate.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

10. Commitments and Contingencies (continued)

Plan Description

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:

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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

11. Arkansas Public Employees Retirement System (continued)

Benefits Provided (continued)

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.

Several benefit changes were made in the 2021 legislative session. These changes only apply to newly hired employees on or after July 1, 2022. Act 370 made the final average compensation for the retirement benefit calculation to be the average of the five highest annual compensations. Act 366 made the annual cost-of-living adjustment to be the lesser of 3% or the percentage change in the Consumer Price Index.

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. Act 365 of the 2021 regular legislative session put in place annual increases of .25% to this employee contribution rate beginning July 1, 2022 and continuing each year up to a maximum rate of 7%. Employers are required to contribute at a rate established by the Board of Trustees of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 15.32% of compensation for both APERS plan fiscal years ended June 30, 2023 and 2022. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

Contributions made by the Utility were \$113,045 and \$99,923 for the years ended October 31, 2023 and 2022, respectively.

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>.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

11. Arkansas Public Employees Retirement System (continued)

Timing of the Valuation

The collective Net Pension Liability was measured as of June 30, 2023, 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 as of June 30, 2023 was 0.03221789%

There were also no changes between the measurement date of June 30, 2023 and the Utility's report ending date of October 31, 2023, 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	7.00%
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, 2023, valuation were based on the results of an actuarial experience study for the period from July 1, 2017 through June 30, 2022, and were applied to all prior periods included in the measurement.

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 (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the APERS target asset allocation as of June 30, 2023 are summarized in the table below:

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

11. Arkansas Public Employees Retirement System (continued)

Long-Term Expected Return on Plan Assets (continued)

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad Domestic Equity	37%	6.19%
International Equity	24%	6.77%
Real Assets	16%	3.34%
Absolute Return	5%	3.36%
Domestic Fixed	18%	1.79%
	<u>100%</u>	
Total Real Rate of Return		4.94%
Plus: Price Inflation - Actuary's Assumption		2.50%
Net Expected Return		<u>7.44%</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).

For the purpose of the June 30, 2021 valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 3.68% (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 7.00%.

The single discount rate of 7% 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%. 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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

11. Arkansas Public Employees Retirement System (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Utility's proportionate share of the net pension liability, calculated using a single discount rate of 7%, as well as what the Utility's net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate:

Sensitivity of the Net Pension Liability to the Single Discount Rate

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Net Pension Liability	\$ 1,496,505	\$ 938,889	\$ 479,467

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

The Utility's proportionate share of pension expense was \$180,542 and \$96,392 for the years ended October 31, 2023 and 2022, respectively. At October 31, 2023, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,998	\$ 5,158
Changes in assumptions	44,139	-
Net difference between projected and actual earnings on pension plan investments	116,858	-
Changes in proportion and differences between employer contribution and proportionate share of contributions	47,332	10,634
Utility contributions subsequent to the measurement date	38,585	-
Total	\$ 299,912	\$ 15,792

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

\$35,585 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, 2024, 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:

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

11. Arkansas Public Employees Retirement System (continued)

Accrued Pension, Pension Expense and Deferred Outflows/Inflows of Resources (continued)

<u>Year Ended October 31,</u>	<u>Net Increase (Decrease) in Pension Expense</u>
2023	\$ 70,803
2024	31,808
2025	150,813
2026	(7,889)
	<u>\$ 245,535</u>

12. Interfund Transfers

The Utility received transfers from the City for the following:

<u>Year Ending October 31,</u>	<u>2023</u>	<u>2022</u>
Lease income received on behalf of Utility	\$ 1,000	\$ -
Sewer repairs and improvements	-	60,276
Total transfers from City	<u>\$ 1,000</u>	<u>\$ 60,276</u>

13. Rental Income

The Utility has signed two operating lease agreements allowing the rental of space on its water tower for the purpose of installing and maintaining wireless communications equipment. One of the leases renews annually and can be terminated at any time. Rental income received under this lease was \$1,200 for both years ended October 31, 2023 and 2022. The other lease is for a term of 10 years expiring in December 2025, and can be renewed for an additional 10 years. Rental income received under this lease was \$1,200 for both years ended October 31, 2023 and 2022.

Because the second lease is a contract that conveys the control of the right to use a nonfinancial asset of the Utility for a period of time in an exchange transaction, the lease falls under the scope of GASB No. 87, *Leases*. Under the lease standard the District would need to record a lease receivable and related deferred inflow of resources for the remaining contract period, which is just over two years at October 31, 2023. Total rental income remaining on the term of the lease is approximately \$2,400 at October 31, 2023. As this amount is not material to the financial statements, the Utility will not record the lease receivable or related deferred inflow of resources in the accompanying financial statements. The Utility will continue to evaluate all leases going forward to ensure compliance with the accounting standard.

14. 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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2023 AND 2022

15. 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. There has been no significant reduction in the District's insurance coverage from the previous year. In addition, there have been no settlements in excess of the District's coverage in any of the prior three fiscal years.

16. Subsequent Events

The Utility has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended October 31, 2023 through March 25, 2024, 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, 2023

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

	June 30, 2023	June 30, 2022	June 30, 2021	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	0.03221789%	0.03013163%	0.03113396%	0.02865261%	0.03009257%	0.02663172%	0.02945749%	0.02924532%	0.02906117%	0.02875090%
Utility's proportionate share of the net pension liability	\$ 938,889	\$ 812,464	\$ 239,368	\$ 820,492	\$ 725,992	\$ 587,478	\$ 761,223	\$ 699,357	\$ 535,229	\$ 407,950
Utility's covered-employee payroll	\$ 713,498	\$ 629,836	\$ 621,707	\$ 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	131.59%	129.00%	38.50%	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	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Schedule of Required Contributions

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contribution	\$ 109,398	\$ 96,491	\$ 95,246	\$ 85,648	\$ 86,673	\$ 73,579	\$ 76,983	\$ 76,832	\$ 76,105	\$ 75,638
Contributions in relation to the contractually required contribution	(109,398)	(96,491)	(95,246)	(85,648)	(86,673)	(73,579)	(76,983)	(76,832)	(76,105)	(75,638)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Utility's covered-employee payroll	\$ 713,498	\$ 629,836	\$ 621,707	\$ 559,062	\$ 565,750	\$ 498,841	\$ 530,916	\$ 529,874	\$ 515,482	\$ 508,320
Contributions as a percentage of covered-employee payroll	15.33%	15.32%	15.32%	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, 2023

Notes to Required Supplemental Information for Cost-Sharing Employer Plans

1. Changes in benefits: None: June 30, 2014 through June 30, 2020
June 30, 2021 valuation
- Extending the maximum time allowed in the DROP from 7 to 10 years, effective March 31, 2021
 - Increasing contributory plan member contributions from 5% to 7%, in 0.25% increments, starting July 1, 2022
 - For members hired on or after July 1, 2022:
 - Change the final average compensation period from 3 to 5 years
 - COLA increases will be the lesser of 3.0% or the increase in the Consumer Price Index
- None: June 30, 2022 through June 30, 2023

2. Changes in actuarial assumptions:

	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Single Discount Rate	7.00%	7.15%	7.15%	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%	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Municipal Bond Rate	3.86%	3.69%	1.92%	2.45%	3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
Source: 20-Bond GO Index										
Remaining Amortization Period	23 Years	25 Years	26 Years	26 Years	30 Years	25 Years	25 Years	21 Years	25 Years	23 years
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	3.75% 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%	3.25% - 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-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-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-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,	2023	2022
Operating Revenue		
Measured sewer	\$ 882,707	\$ 782,227
Other	930	4,998
Total Operating Revenue	883,637	787,225
Operating Expenses		
Salaries	258,825	238,600
Employee benefits	106,648	61,912
Payroll taxes	19,663	18,241
Chemicals	96,146	94,703
Lab expense	55,164	24,929
Utilities and telephone	105,234	95,021
Repairs and maintenance	63,495	87,240
Vehicle	13,302	18,337
Insurance	30,807	26,909
Dues and fees	17,579	15,898
Office	6,759	6,783
Professional fees	19,020	21,977
Billing	10,663	9,008
Contractual services	3,755	12,749
Information technology	2,026	160
Education and safety	10,839	4,524
Supplies	6,547	2,059
Advertising	628	4,113
Depreciation	269,999	276,117
Other operating expenses	1,492	347
Total Operating Expenses	1,098,591	1,019,627
Net Loss From Operations	(214,954)	(232,402)
Other Income (Expenses)		
Interest income	10,374	1,923
Interest expense	(28,761)	(3,917)
Total Net Other Income (Expenses)	(18,387)	(1,994)
Change in Net Assets	\$ (233,341)	\$ (234,396)

See independent auditor's report.

ADDITIONAL REPORT



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

To the 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, 2023, 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 25, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mena Water Utilities 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mena Water Utilities internal control. Accordingly, we do not express an opinion on the effectiveness of Mena Water Utilities 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mena Water Utilities 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 25, 2024