

MENA WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF MENA, ARKANSAS
AUDITED FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019



MENA WATER UTILITIES
OCTOBER 31, 2020 AND 2019

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-8
Financial Statements	
Statements of Net Position.....	9-10
Statements of Revenue, Expenses, and Changes in Net Position.....	11
Statements of Cash Flows.....	12-13
Notes to Financial Statements.....	14-35
Required Supplementary Information	
Required Supplemental Information for Cost-Sharing Employer Plans.....	36
Notes to Required Supplemental Information for Cost-Sharing Employer Plans.....	37
Supplemental Information	
Schedule of Revenues and Expenses - Sewer Only (Unaudited).....	38
Supplementary Statistics Required by Rural Development.....	39-40
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 <i>Government Auditing Standards</i>	41-42



Independent Auditors' 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, 2020 and 2019, 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.

Auditors' 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.

4200 Jenny Lind Road, Ste B
Fort Smith, Arkansas 72901
Ph: 479.649.0888 email: marcl@selectlanding.com
www.selectcpa.com

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, 2020 and 2019, 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, 2020, 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 36 and 37 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, and the supplementary statistics required by Rural Development is presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary statistics required by Rural Development is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with

auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The schedule of revenues and expenses – sewer only 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 February 27, 2021, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mena Water Utilities' internal control over financial reporting and compliance.



Przybysz & Associates, CPAs. P.C.
Fort Smith Arkansas
February 27, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2020**

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, 2020. 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 asset balance of \$6,621,254.
- The change in net position or net income of the Utility was an increase of \$602,929.
- The statement of cash flows identifies sources and uses of cash activity for the fiscal year. For fiscal year 2020, total cash increased by \$15,425. Cash provided from the day-to-day operations totaled \$1,114,551. Cash used by capital and related financing activities totaled \$1,277,485. This amount was largely due to scheduled debt service of \$606,870. Cash used for fixed asset additions totaled \$751,807. Additional amounts consisted of transfers from the City of Mena totaling \$70,692. Cash provided by investing activities totaled \$178,359.

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, 2020. 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, 2020**

CONDENSED FINANCIAL INFORMATION

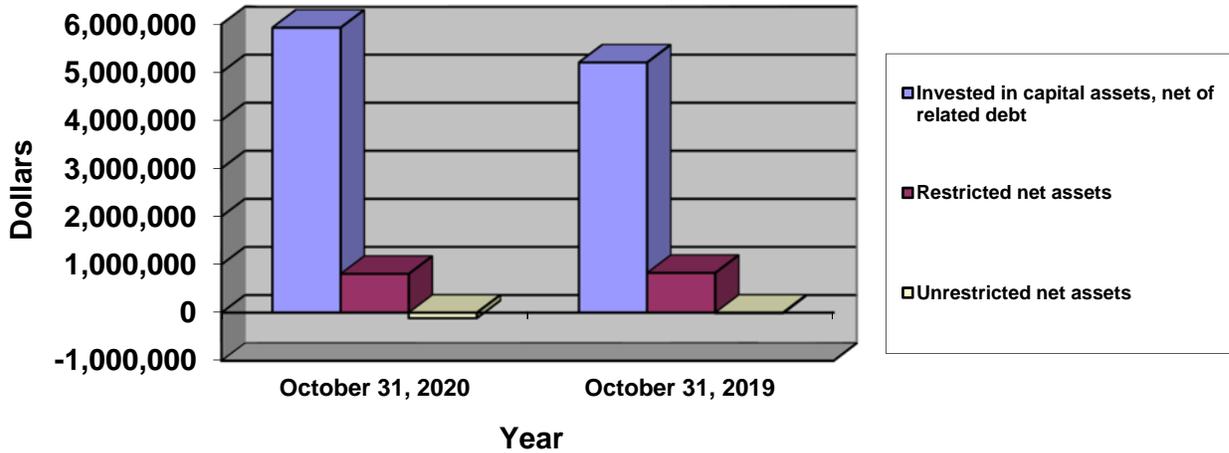
Condensed financial information from the statement of net assets as of October 31, 2020 and 2019 and the statement of revenues, expenses and changes in net assets for the years then ended are as follows:

	October 31,	
	2020	2019
Current assets	\$ 1,918,797	\$ 2,168,447
Capital assets, net	12,277,061	12,193,603
Total assets	<u>14,195,858</u>	<u>14,362,050</u>
Deferred outflows	<u>354,896</u>	<u>327,428</u>
Current liabilities	834,345	782,069
Long-term debt	7,030,623	7,787,467
Total liabilities	<u>7,864,968</u>	<u>8,569,536</u>
Deferred inflows	<u>64,532</u>	<u>101,617</u>
Net assets:		
Net investment in capital assets	5,928,178	5,209,856
Restricted	806,054	826,089
Unrestricted	(112,978)	(17,620)
Total net assets	<u>\$ 6,621,254</u>	<u>\$ 6,018,325</u>
Operating revenues	<u>\$ 2,691,058</u>	<u>\$ 2,622,111</u>
Operating expenses, excluding depreciation	1,684,503	1,654,263
Depreciation	838,845	764,171
Total operating expenses, including depreciation	<u>2,523,348</u>	<u>2,418,434</u>
Operating income	167,710	203,677
Nonoperating revenues/(expenses)	(233,657)	(258,888)
Transfers	<u>668,876</u>	<u>81,900</u>
Change in net assets	602,929	26,689
Beginning of year net assets	6,018,325	5,991,636
End of year net assets	<u>\$ 6,621,254</u>	<u>\$ 6,018,325</u>

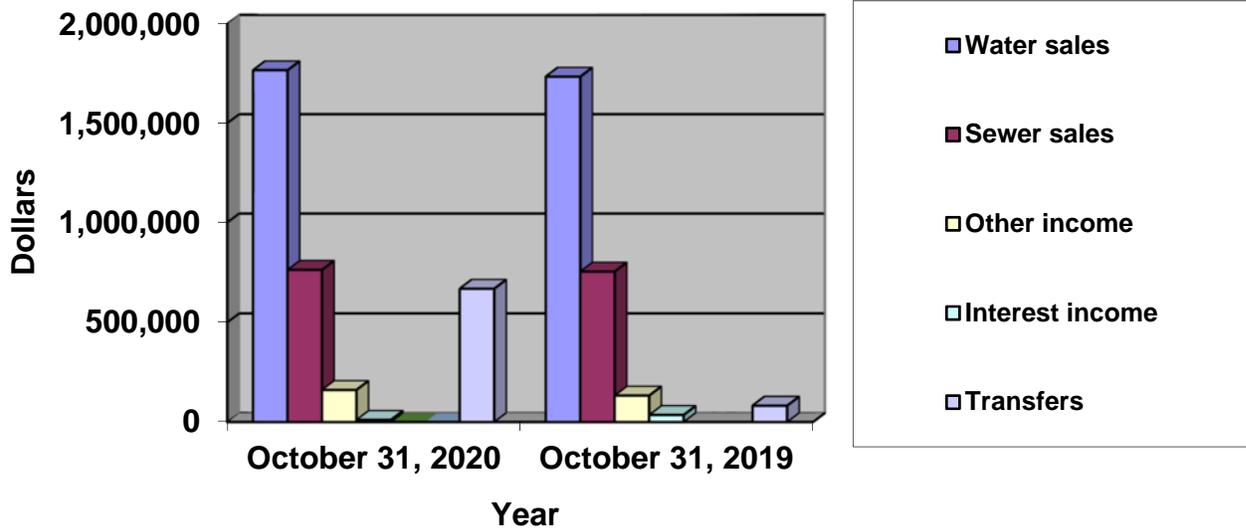
**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2020**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

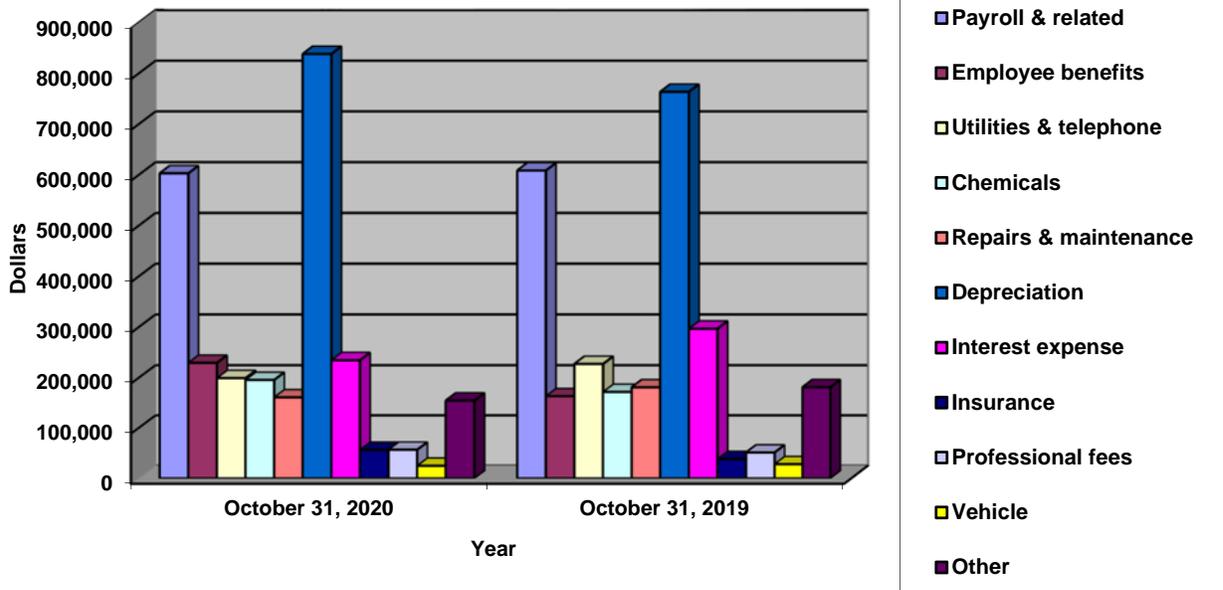


Revenue of the Utility presented in a graph format



**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2020**

Expenses of the Utility presented in graph format



CAPITAL ASSETS

The Utility's capital assets as of October 31, 2020 and 2019 amounted to \$29,100,481 and \$28,203,479 respectively. This investment in capital assets includes the utility plant and distribution system, machinery and equipment, and construction in process. Fixed assets put into service totaled \$1,433,098. Of this amount, \$491,291 were for projects started in the prior year that were completed in the current year and \$941,507 being acquired in the current year.

The Utility has construction in progress of \$479,564 at October 31, 2020 for some significant projects. The first is for a new clearwell at the water treatment plant. This project is estimated to cost approximately \$18 million. The second is for a new wastewater treatment plant. This project is estimated to cost \$13 million. The Utility is working on securing funding for both projects and both are scheduled for completion in 2023. It is possible that the Utility may not get the funding required for the new wastewater plant and will use funding received to upgrade and repair the existing facility.

LONG-TERM DEBT

The Utility's total debt at October 31, 2020 was \$6,837,056 compared to \$7,693,922 as of October 31, 2019. Total debt service for the year ended October 31, 2020 was \$1,046,866 of which \$388,444 was for scheduled principal payments. The remaining principal payment made was for the outstanding balance on the Rural Development loan which was made by the City of Mena on behalf of the Utility. In addition, the Utility secured a new loan totaling \$190,000 on October 15, 2020 for land purchased for the site of the new wastewater treatment plant.

**MENA WATER UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2020**

CHANGE IN NET POSITION

For the year ended October 31, 2020, the Utility's change of net position was an increase of \$602,929. This increase was due to the transfer (revenue) from the City of Mena totaling \$668,876 for the debt payment made on the Utility's behalf and reimbursement to the Utility for manhole repairs. Operating revenues of \$2,691,058 increased by \$68,947 (3%) from prior year. Operating expenses of \$2,523,348 increased by \$104,914 (4%) from prior year mainly due to non-controllable expenses including increased depreciation of \$74,674 and APERS pension expense of \$66,344.

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,	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 177,144	\$ 181,980
Restricted cash	318,401	298,140
Restricted investments	968,132	1,135,953
Accounts receivable, net of allowance for doubtful accounts	253,097	235,012
Due from City	-	65,617
Inventory	180,795	141,336
Prepaid expenses	21,228	110,409
Total Current Assets	1,918,797	2,168,447
Noncurrent Assets		
Capital Assets		
Property, plant, and equipment	29,100,481	28,203,479
Less accumulated depreciation	(16,823,420)	(16,009,876)
Net Capital Assets	12,277,061	12,193,603
Total Assets	14,195,858	14,362,050
Deferred Outflows		
Deferred loss on refunding, net of amortization	120,977	131,775
Deferred outflows of resources related to pension	233,919	195,653
Total Deferred Outflows	354,896	327,428
Total Assets and Deferred Outflows of Resources	\$ 14,550,754	\$ 14,689,478

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF NET POSITION

AS OF OCTOBER 31,	2020	2019
Liabilities		
Current Liabilities		
Accounts payable	\$ 124,595	\$ 110,690
Sales tax payable	12,469	12,304
Payroll taxes payable	7,374	1,805
Wages payable	44,216	52,318
Accrued interest	106,931	111,991
Customer meter deposits	74,025	72,366
Current portion of long-term debt	464,735	420,595
Total Current Liabilities	834,345	782,069
Noncurrent liabilities:		
Long-term debt, net of unamortized bond discounts	6,304,631	7,199,989
Net pension liability	725,992	587,478
Total Noncurrent Liabilities	7,030,623	7,787,467
Total Liabilities	7,864,968	8,569,536
Deferred Inflows		
Deferred inflows of resources related to pension	64,532	101,617
Total Deferred Inflows	64,532	101,617
Net Position		
Net investment in capital assets	5,928,178	5,209,856
Restricted	806,054	826,089
Unrestricted	(112,978)	(17,620)
Total Net Position	6,621,254	6,018,325
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 14,550,754	\$ 14,689,478

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED OCTOBER 31,	2020	2019
Operating Revenue		
Metered water	\$ 1,766,243	\$ 1,733,968
Measured sewer	764,056	755,749
Other	160,759	132,394
Total Operating Revenue	2,691,058	2,622,111
Operating Expenses		
Advertising	2,266	2,281
Employee benefits	230,082	163,738
Depreciation	838,845	764,171
Insurance	56,655	38,215
Dues and fees	40,942	48,125
Office	15,826	23,959
Professional fees	56,910	51,446
Contractual services	3,566	3,566
Lab expense	39,606	30,606
Vehicle	24,998	28,117
Repairs and maintenance	161,487	181,438
Salaries	555,465	560,976
Supplies	10,102	12,800
Chemicals	196,147	172,245
Education and safety	7,884	14,466
Utilities and telephone	199,741	227,834
Payroll taxes	48,030	48,111
Other operating expenses	34,796	46,340
Total Operating Expenses	2,523,348	2,418,434
Net Income From Operations	167,710	203,677
Other Income (Expenses)		
Interest income	10,538	35,011
Gain (loss) on disposition of equipment	(9,004)	2,852
Interest expense, inclusive of amortization of bond discounts and amortization of deferred amount on advance refunding	(235,191)	(296,751)
Total Net Other Income (Expenses)	(233,657)	(258,888)
Net Loss Before Transfers	(65,947)	(55,211)
Operating Transfers	668,876	81,900
Change in Net Position	602,929	26,689
Net Position at Beginning of Year	6,018,325	5,991,636
Net Position at End of Year	\$ 6,621,254	\$ 6,018,325

See accompanying notes to financial statements.

MENA WATER UTILITIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED OCTOBER 31,	2020	2019
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 2,512,379	\$ 2,495,483
Other receipts	160,759	132,394
Cash payments to suppliers for goods and services	(995,020)	(1,142,152)
Cash payments to employees for services	(563,567)	(559,254)
Net Cash Provided By Operating Activities	1,114,551	926,471
Cash Flows From Capital and Related Financing Activities		
Acquisition of property, plant and equipment	(751,807)	(526,595)
Proceeds from sale of assets	10,500	2,852
Loan proceeds	-	40,000
Repayment of debt	(388,444)	(4,065,804)
Interest paid on debt	(218,426)	(269,565)
Transfers from the City of Mena	70,692	17,580
Net Cash Used By Capital and Related Financing Activities	(1,277,485)	(4,801,532)
Cash Flows From Investing Activities		
Net investment activity	167,821	3,686,805
Interest income	10,538	35,011
Net Cash Provided By Investing Activities	178,359	3,721,816
Net Increase (Decrease) In Cash, Cash Equivalents and Restricted Cash	15,425	(153,245)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	480,120	633,365
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 495,545	\$ 480,120
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 177,144	\$ 181,980
Restricted cash	318,401	298,140
Total Cash, Cash Equivalents and Restricted Cash	\$ 495,545	\$ 480,120
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	30,458
Interest paid by the City on behalf of the Utility	5,379	33,862
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,	2020	2019
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net income from operations	\$ 167,710	\$ 203,677
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	838,845	764,171
(Increase) decrease in:		
Trade accounts receivable	(18,085)	6,149
Other receivables	-	(108)
Inventory	(39,459)	24,637
Prepaid expenses	89,181	(69,242)
Deferred outflows related to pension	(38,266)	82,044
Increase (decrease) in:		
Accounts payable	13,905	(3,187)
Sales tax payable	165	(275)
Payroll taxes payable	5,569	154
Wages payable	(8,102)	1,722
Customer meter deposits	1,659	4,070
Net pension liability	138,514	(173,745)
Deferred inflows related to pension	(37,085)	86,404
Net Cash Provided By Operating Activities	\$ 1,114,551	\$ 926,471

See accompanying notes to financial statements.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

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. New Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*. The purpose of this statement is to address accounting and financial reporting for certain retirement obligations (ARO's). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government has a legal obligation to perform future asset retirement activities related to its tangible capital assets and should recognize a liability based on the guidance on the statement. The Utility adopted this statement during the year. See footnote 8 for additional information on the implementation of this standard.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The purpose of this statement is to improve the information that is disclosed in notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Utility adopted this statement during the year and added the appropriate disclosures in the footnotes.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

c. 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.

d. Income Tax Status

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

e. 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.

f. 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.

g. 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 doubtful accounts is estimated based on professional judgement and historical information and is \$14,165 and \$13,153 on October 31, 2020 and 2019, respectively.

h. Due from City

Due from primary government is the amount held by the City in reserve for the debt payments made by the City for the Utility. In December 2019, the City used the reserve to pay the debt in full on behalf of the Utility as detailed in Note 13.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

i. 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.

j. 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.

k. 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.

l. 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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

m. 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.

n. Compensated Absences

Employees earn vacation and sick pay in varying amounts based upon length of service with the Department. 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 Department, employees are paid their accumulated unused vacation. No unused accumulated sick pay is paid upon termination.

The Department 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, 2020 and 2019, the Department had \$21,717 and \$30,581 accrued for vacation and compensated absences.

o. 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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

o. Net Position (continued)

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

When both restricted and unrestricted resources are available for use, it is the Utility's policy to use restricted resources first, then unrestricted resources as they are needed.

p. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Utility. Operating revenues consist primarily of water sales and fees for miscellaneous services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities.

q. 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.

r. Reclassifications

Certain 2019 amounts have been reclassified in order to conform with the 2020 financial statement presentation. Net position and changes in net position are unchanged due to these reclassifications.

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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

2. Customers and Rates (continued)

a. Classes of Users (continued)

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 1/1/20

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

Schedule A - rates effective 1/1/19

Gallons	Water	Sewer
Up to 100	\$12.15 (minimum charge)	\$8.50 (minimum charge)
Next 900	\$3.33 per 1,000 gallons	\$8.50 per 1,000 gallons
Next 9,000	\$3.33 per 1,000 gallons	\$3.30 per 1,000 gallons
Remainder	\$2.91 per 1,000 gallons	\$3.30 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

Schedule B - rates effective 1/1/19

Gallons	Water	Sewer
Up to 100	\$15.50 (minimum charge)	\$11.75 (minimum charge)
Next 900	\$3.33 per 1,000 gallons	\$11.75 per 1,000 gallons
Next 9,000	\$3.33 per 1,000 gallons	\$3.75 per 1,000 gallons
Remainder	\$2.91 per 1,000 gallons	\$3.75 per 1,000 gallons

The Utility charges \$0.30 each month per water meter in service for the Clean Water Act.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

3. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Utility's deposits may not be recovered. 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.

At October 31, 2020 and 2019, the Utility had no deposits that were uninsured or uncollateralized. Independent third parties held securities in the Utility's name as collateral at October 31, 2019. The bank balances and carrying amount of the Utility's deposits held were as follows:

Description	At October 31, 2020		At October 31, 2019	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 515,308	\$ 494,795	\$ 495,506	\$ 479,370
Collateralized - held by pledging bank or pledging bank's trust department in the Utility's name	-	-	19,573	-
Cash on hand	-	750	-	750
Total	\$ 515,308	\$ 495,545	\$ 515,079	\$ 480,120

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

As Of October 31,	2020	2019
Cash and cash equivalents	\$ 177,144	\$ 181,980
Restricted checking and savings accounts	318,401	298,140
Total	\$ 495,545	\$ 480,120

4. Restricted Accounts

Restricted cash and cash equivalent accounts consists of the following:

As Of October 31,	2020	2019
2017 Bond Debt Service Reserve	\$ 165,906	\$ 164,064
2017 Debt Service Fund	29,118	30,043
Depreciation Reserve Fund	49,337	31,667
Meter Deposit Account	74,040	72,366
Total restricted cash and cash equivalents	\$ 318,401	\$ 298,140

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

4. Restricted Accounts (continued)

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

As of October 31,	2020	2019
2018 Debt Service Reserve Fund	\$ 148,539	\$ 148,539
2018 Construction Fund	299,507	504,563
2017 Bond Fund	281,715	273,998
2018 Bond Reserve	238,371	208,853
Total restricted investments	\$ 968,132	\$ 1,135,953

5. 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, 2020 AND 2019

5. 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, 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

As of October 31, 2019	Cost	Market Value
<u>Bond Funds</u>		
Bank OZK RNT DDA Institutional Money Market (2017)	\$ 273,998	\$ 273,998
Bank OZK RNT DDA Institutional Money Market (2018)	208,853	208,853
<u>Debt Service Reserve Funds</u>		
Federated Government Oblig #395 CL SS	148,539	148,539
<u>Construction Funds</u>		
Federated Government Oblig #395 CL SS	504,563	504,563
Total	\$ 1,135,953	\$ 1,135,953

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.

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 in the Utility's name are insured or collateralized or limited to Treasury and government agency securities.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. When measuring a fair value, a fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

All investments of the Utility are valued using Level 1 inputs. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methods used may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Utility believes its valuation methods are appropriate and consistent with other market participants the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the methodologies used at October 31, 2020.

The following table represents the Utility's investments that are measured at fair value on a recurring basis at October 31, 2020:

	Level 1	Level 2	Level 3	Total
Bank OZK RNT DDA				
Institutional Money Market	\$ 686,417	\$ -	\$ -	\$ 686,417
Bank OZK Institutional Int				
Bearing Business	281,715	-	-	281,715
Total	\$ 968,132	\$ -	\$ -	\$ 968,132

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

7. Property, Plant and Equipment

Activity of capital assets consist of the following:

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

As Of	November 1, 2018	Additions	Retirements	October 31, 2019
Land	\$ 6,540	\$ -	\$ -	\$ 6,540
Utility plant in service	26,542,150	234,949	(11,174)	26,765,925
Machinery and equipment	917,043	99,136	(25,077)	991,102
Construction in progress	191,902	353,243	(105,233)	439,912
Total capital assets	27,657,635	687,328	(141,484)	28,203,479
Less accumulated depreciation				
Utility plant in service	14,557,225	720,220	(11,171)	15,266,274
Machinery and equipment	724,728	43,951	(25,077)	743,602
Total accumulated depreciation	15,281,953	764,171	(36,248)	16,009,876
Capital assets, net	\$ 12,375,682	\$ (76,843)	\$ (105,236)	\$ 12,193,603

Construction in progress at October 31, 2020 is for the following projects:

Project Description	Balance 10/31/2020	Balance 10/31/2019	Estimated/Total Project Cost	Estimated Completion
Wastewater plant replacement and Sanitary Sewer Evaluation Survey (SSES) improvements and replacements	\$ 230,566	\$ 80,405	\$ 15,000,000	Spring 2023
Building new clearwell at the water treatment plant	155,705	90,955	18,000,000	Spring 2023
Manhole repairs	80,693	22,750	100,000	Summer 2021

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

7. Property, Plant and Equipment (continued)

Project Description	Balance 10/31/2020	Balance 10/31/2019	Estimated/Total Project Cost	Estimated Completion
SSES Cost study	\$ -	\$ 223,262	\$ 265,786	Complete
Painting of Ward Lake ground storage tank	-	13,940	174,267	Complete
Drive-thru window repair	7,500	-	12,348	December 2020
Other	5,100	8,600	unknown	unknown
Total	\$ 479,564	\$ 439,912		

As of the date of the financial statements, the Utility is in the process of securing funding for both the wastewater replacement plant / SSES improvement and replacement project and clearwell project.

8. Asset Retirement Obligation

The Utility adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during the year. An 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 during the year.

However, funding for this project has not been secured, and depending on the amount of funding received, it is possible that the Utility may have to keep its existing WWTP and make the necessary repairs instead. Due to the uncertainty involved in the remaining life of the WWTP and that the Utility does not currently have an estimate of the potential liability, the Utility is not reporting an ARO on the Statement of Net Position.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

9. Long-Term Debt

Long-term debt of the Utility consists of:

As of October 31,	2020	2019
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.	\$ 2,670,000	\$ 2,900,000
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.	3,905,000	4,040,000
Rural Development - Payments are made monthly in the amount of \$5,360 and include interest of 5.00%. The note matures in 2034 and is secured by the City of Mena's pledge of a 1% sales and use tax.	-	658,422
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.	26,667	40,000
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.	45,389	55,500
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.	190,000	-
Total long-term debt	6,837,056	7,693,922
Less current maturities	464,735	420,595
Long-term debt	6,372,321	7,273,327
Less unamortized discounts	67,690	73,338
Long-term debt, net	\$ 6,304,631	\$ 7,199,989

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

9. Long-Term Debt (continued)

Debt is scheduled to be repaid as follows:

October 31,	Bonds		Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2021	\$ 405,000	\$ 206,169	\$ 59,735	\$ 7,018	\$ 677,922
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	51,293	2,126	661,666
2025	445,000	160,519	40,120	650	646,289
2026-2030	2,445,000	573,943	-	-	3,018,943
2031-2035	1,190,000	260,997	-	-	1,450,997
2036-2038	825,000	46,991	-	-	871,991
Total	\$ 6,575,000	\$ 1,801,819	\$ 262,056	\$ 19,059	\$ 8,657,934

Activity of long-term obligations consists of the following:

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

As Of	November 1, 2018	Additions	Retirements	October 31, 2019	Due Within One Year
Rural Development	\$ 688,880	\$ -	\$ 30,458	\$ 658,422	\$ 32,134
2013 Series Bonds	3,855,000	-	3,855,000	-	-
2017 Series Bonds	3,125,000	-	225,000	2,900,000	230,000
2018 Series Bonds	4,040,000	-	-	4,040,000	135,000
Union Bank	19,666	-	19,666	-	-
City of Mena	-	40,000	-	40,000	13,333
John Deere	-	55,500	-	55,500	10,128
Net pension liability	761,223	-	173,745	587,478	-
Total	\$ 12,489,769	\$ 95,500	\$ 4,303,869	\$ 8,281,400	\$ 420,595

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

9. 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.

10. 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 will be amortized over 20 years. Amortization of the bond discounts totaled \$5,648 for both years ended October 31, 2020 and 2019, and is 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 \$120,977 and \$131,775 on October 31, 2020 and 2019, 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, 2020 and 2019, and is included in interest on the statement of revenues, expenses and changes in net position.

11. 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, 2020 and 2019, the Utility had satisfied all the covenants of the Bond Trust Indenture.

12. 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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

12. Arkansas Public Employees Retirement System (continued)

Plan Description (continued)

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

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.

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

12. Arkansas Public Employees Retirement System (continued)

Benefits Provided (continued)

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 both fiscal years ended October 31, 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 \$88,232 and \$88,849 for the years ended October 31, 2020 and 2019, 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>.

Timing of the Valuation

The collective Net Pension Liability was measured as of June 30, 2019, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Utility's proportion of the Net Pension Liability was based on the Utility'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 0.03009257%

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

12. Arkansas Public Employees Retirement System (continued)

Timing of the Valuation (continued)

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, 2019 and the Utility's report ending date of October 31, 2020, that would have had a significant impact on the net pension liability.

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed (Level Dollar, Closed for District Judges New Plan and Paid Off Old Plan and District Judges Still Paying Old Plan)
Remaining Amortization Period	30 years (8.6 years for District Judges New Plan/Paid Off Old Plan and 17 years for District Judges Still Paying Old Plan)
Asset Valuation Method	4-Year smoothed market; 25% corridor (Market Value for Still Paying Old Plan)
Inflation	3.25% wage inflation, 2.50% price inflation
Salary Increases	3.25% – 9.85% including inflation (3.25% - 6.96% including inflation for District Judges)
Investment Rate of Return	7.15%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Table	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

All other actuarial assumptions used in the June 30, 2019, 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, 2020 AND 2019

12. 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 (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 current asset allocation percentage and by adding expected price inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2019 to 2028 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, 2019, these best estimates are summarized in the following table:

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%	6.20%
International Equity	24%	6.33%
Real Assets	16%	3.32%
Absolute Return	5%	3.56%
Domestic Fixed	18%	1.54%
	<u>100%</u>	
Total Real Rate of Return		4.80%
Plus: Price Inflation - Actuary's Assumption		<u>2.50%</u>
Net Expected Return		<u>7.30%</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, 2020 AND 2019

12. Arkansas Public Employees Retirement System (continued)

For the purpose of the June 30, 2019 valuation, the expected rate of return on pension plan investments is 7.15%; the municipal bond rate is 3.13% (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.

Single Discount Rate(continued)

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 6.15%	Current Rate 7.15%	1% Increase 8.15%
Net Pension Liability	\$ 1,163,584	\$ 725,992	\$ 364,959

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

12. Arkansas Public Employees Retirement System (continued)

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

At October 31, 2020 the Utility has an accrued APERS liability of \$2,393 for the Utility's legally required contribution.

The Utility's proportionate share of pension expense was \$152,944 and \$82,065 for the years ended October 31, 2020 and 2019, respectively. At October 31, 2020, 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	\$ 19,758	\$ 1,079
Changes in assumptions	39,405	27,908
Net difference between projected and actual earnings on pension plan investments	-	5,514
Changes in proportion and differences between employer contribution and proportionate share of contributions	57,694	30,031
Utility contributions subsequent to the measurement date	117,062	-
Total	\$ 233,919	\$ 64,532

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

\$117,062 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, 2021, 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
2021	\$ 39,910
2022	(15,474)
2023	15,227
2024	12,662
	\$ 52,325

MENA WATER UTILITIES

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2020 AND 2019

13. Interfund Transfers

The Utility received transfers from the City for the following:

Year Ending October 31,	2020	2019
Principal and interest on Rural Development Loan	\$ 663,801	\$ 64,320
Sewer repairs and improvements	70,692	17,580
	734,493	81,900
Less: Utility receivable for debt service reserve held by City	(64,617)	-
Total transfers from City	\$ 669,876	\$ 81,900

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.

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. 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 2020 and 2019.

16. COVID-19

On March 11, 2020, the World Health Organization categorized Coronavirus Disease 2019 (COVID-19) as a pandemic. The spread of COVID-19 continues to cause global economic uncertainty as of the date of this report. The impact on the Utility could be a decrease in revenues due to an inability of customers to pay utility bills caused by increased unemployment levels, however, there has not been any significant decrease to date. The Utility waived customer late fees for one month and did not disconnect any customers for non-payment for two months. The Utility also incurred additional expenses for personal protective equipment to provide a safe working environment for employees. The Utility continues to monitor its operations, liquidity, and capital resources to minimize the current and future impact of this unprecedented situation.

17. Subsequent Events

The Utility has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended October 31, 2020 through February 27, 2021, 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, 2020

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

	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	0.03009257%	0.02663172%	0.02945749%	0.02924532%	0.02906117%	0.02875090%
Utility's proportionate share of the net pension liability	\$ 725,992	\$ 587,478	\$ 761,223	\$ 699,357	\$ 535,229	\$ 407,950
Utility's covered-employee payroll	\$ 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	128.32%	117.77%	143.38%	131.99%	103.83%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Schedule of Required Contributions

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

See independent auditors' report.

MENA WATER UTILITIES

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

FOR THE YEAR ENDED OCTOBER 31, 2020

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, 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%	7.50%	7.50%	7.75%
Investment Rate of Return	7.15%	7.15%	7.15%	7.50%	7.50%	7.75%
Municipal Bond Rate	3.13%	3.62%	3.56%	2.85%	3.80%	4.29%
Source: 20-Bond GO Index						
Remaining Amortization Period	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	3.25% 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%	3.75% - 10.35%
Mortality Table	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 auditors' report.

SUPPLEMENTAL INFORMATION

MENA WATER UTILITIES

SCHEDULE OF REVENUES, EXPENSES - SEWER ONLY

FOR THE YEARS ENDED OCTOBER 31,	2020	2019
Operating Revenue		
Measured sewer	\$ 761,590	\$ 754,814
Total Operating Revenue	761,590	754,814
Operating Expenses		
Advertising	680	684
Employee benefits	74,251	50,959
Depreciation	281,880	238,970
Insurance	16,683	11,573
Dues and fees	7,514	16,132
Office	4,965	6,839
Professional fees	17,073	16,492
Contractual services	1,950	1,803
Lab expense	33,724	24,602
Vehicle	12,536	9,605
Repairs and maintenance	101,208	99,823
Salaries	200,735	179,483
Supplies	5,253	3,690
Chemicals	54,208	40,445
Education and safety	2,879	4,505
Utilities and telephone	78,144	86,827
Payroll taxes	16,650	15,010
Other operating expenses	10,575	13,360
Total Operating Expenses	920,908	820,802
Net Loss From Operations	(159,318)	(65,988)
Other Income (Expenses)		
Interest income	5,269	17,506
Gain (loss) on disposition of equipment	(9,004)	-
Interest expense	(3,560)	(33,862)
Total Net Other Income (Expenses)	(7,295)	(16,356)
Net Loss Before Transfers	(166,613)	(82,344)
Operating Transfers	668,876	81,900
Change in Net Assets	\$ 502,263	\$ (444)

See independent auditors' report.

MENA WATER UTILITIES

SUPPLEMENTARY STATISTICS REQUIRED BY RURAL DEVELOPMENT

FOR THE YEAR ENDED OCTOBER 31, 2020

1. Monthly water rates: All charges shall be based on water consumption, and the amount to be paid by each customer shall be computed on the basis of the following schedule of rates effective October 31, 2020.

Inside Mena City Limits	
No usage	\$12.15 (minimum)
For the first 10,000 gallons of water consumption per month, or portion thereof.	\$3.41 1,000 gallons
For all water consumption in excess of 10,000 gallons per month.	\$2.98 1,000 gallons
Outside Mena City limits	
No usage	\$15.50 (minimum)
For the first 10,000 gallons of water consumption per month, or portion thereof.	\$3.41 1,000 gallons
For all water consumption in excess of 10,000 gallons per month.	\$2.98 1,000 gallons

2. The average number of water customers billed during the year ended October 31, 2020 was 3,777 per month.
3. Total gallons of water produced during the year ended October 31, 2020 amounted to 410,293,890.
4. Total gallons of water sold during the year ended October 31, 2020 amounted to 376,875,390.
5. In the opinion of management, reserve accounts are being properly maintained.
6. In the opinion of management, the accounting records were adequate and in agreement with the accompanying financial statements, after giving effect to various adjustments.

See independent auditors' report.

MENA WATER UTILITIES

SUPPLEMENTARY STATISTICS REQUIRED BY RURAL DEVELOPMENT

FOR THE YEAR ENDED OCTOBER 31, 2020

7. Mena Water Utilities commissioners as of October 31, 2020 were:

Sue Cavner	Chair
David Young	Vice Chair
David Ray	Secretary
Tommy Fowler	Member
Debra Buschman	Member

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 the Mena Water Utilities, as of and for the year ended October 31, 2020, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements, and have issued our report thereon dated February 27, 2021.

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
February 27, 2021