

**CITY OF MANSFIELD, ARKANSAS
WATER AND SEWER DEPARTMENT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020



**CITY OF MANSFIELD, ARKANSAS WATER
AND SEWER DEPARTMENT
DECEMBER 31, 2021 AND 2020**

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Independent Auditors' Report

To the Honorable Mayor and City Council
City of Mansfield, Arkansas Water and Sewer Department
Mansfield, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Mansfield, Arkansas Water and Sewer Department (the Department), as of and for the years ended December 31, 2021 and 2020, 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 the City of Mansfield Water and Sewer Department as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. 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 the City of Mansfield, Arkansas Water and Sewer Department 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 water and sewer department enterprise fund and do not purport to, and do not, present fairly the financial position of the City of Mansfield, Arkansas, as of December 31, 2021, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mansfield, Arkansas Water and Sewer Department's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently know information that may raise substantial doubt shortly thereafter.

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 the City of Mansfield, Arkansas Water and Sewer Department's 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Mansfield, Arkansas Water and Sewer Department's ability to continue as a going concern for a reasonable period of time.

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 on pages 4-7 be presented to supplement the basic 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Mansfield, Arkansas Water and Sewer Department's financial statements. The schedule of bonds outstanding is presented for purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of bonds outstanding is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2022 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's 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 the Department's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
March 25, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

This section of the City of Mansfield Water and Sewer Department annual financial report presents the analysis of the Department's financial performance during the calendar year ended December 31, 2021. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Department ended the year December 31, 2021 and 2020 with a net position balance of \$1,731,018 and \$1,643,988.
- The change in net position or net income of the Department was an increase of \$87,020 and \$44,385 for the years ended December 31, 2021 and 2020.
- The statement of cash flows identifies sources and uses of cash activity for the calendar year. For calendar year 2021, cash, cash equivalents and restricted cash increased by \$68,897. Cash provided from the day-to-day operations resulted in positive cash flows of \$143,849. Cash used by capital and related financing activities totaled \$283,086. This consisted of debt service of \$262,287, fixed asset additions of \$46,299, less \$25,500 of cash transferred from the City. Cash provided by noncapital and related financing activities totaled \$206,083, which was all sales tax revenue for bond payments. Furthermore, cash provided by investing activities totaled \$2,051.

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 Department 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 Department's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Department creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the Department's revenues and expenses for the calendar year ended December 31, 2021 and 2020. This statement provides information on the Department's operations over the past calendar year and can be used to determine whether the Department 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 Department'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 balance total to the cash equivalent balance at the end of the current calendar year.

**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

CONDENSED FINANCIAL INFORMATION

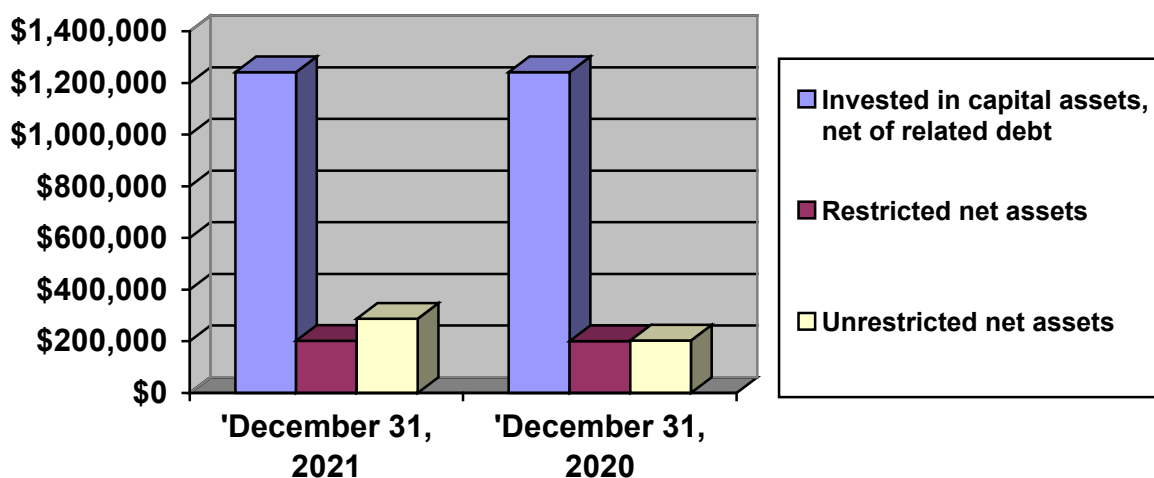
Condensed financial information from the statement of net position as of December 31, 2021 and 2020 and the statement of revenues, expenses and changes in net position for the years then ended are as follows:

	December 31,	
	2021	2020
Current assets	\$ 627,532	\$ 535,772
Capital assets, net	3,785,372	3,921,031
Total assets	<u>4,412,904</u>	<u>4,456,803</u>
Deferred outflows	<u>151,327</u>	<u>165,514</u>
Current liabilities	281,165	266,302
Long-term debt	2,534,991	2,691,993
Total liabilities	<u>2,816,156</u>	<u>2,958,295</u>
Deferred inflows	<u>17,057</u>	<u>20,024</u>
Net assets:		
Invested in capital assets, net of related debt	1,241,635	1,241,381
Restricted	201,979	200,158
Unrestricted	287,404	202,459
Total net assets	<u>\$ 1,731,018</u>	<u>\$ 1,643,998</u>
Operating revenues	<u>\$ 678,405</u>	<u>\$ 649,219</u>
Operating expenses, excluding depreciation	521,476	502,948
Depreciation	181,957	180,350
Total operating expenses, including depreciation	<u>703,433</u>	<u>683,298</u>
Operating loss	(25,028)	(34,079)
Nonoperating revenues/(expenses)	<u>86,548</u>	<u>78,464</u>
Net income before transfers	61,520	44,385
Operating transfers	25,500	-
Change in net position	<u>87,020</u>	<u>44,385</u>
Net position at beginning of year	1,643,998	1,599,613
Net position at end of year	<u>\$ 1,731,018</u>	<u>\$ 1,643,998</u>

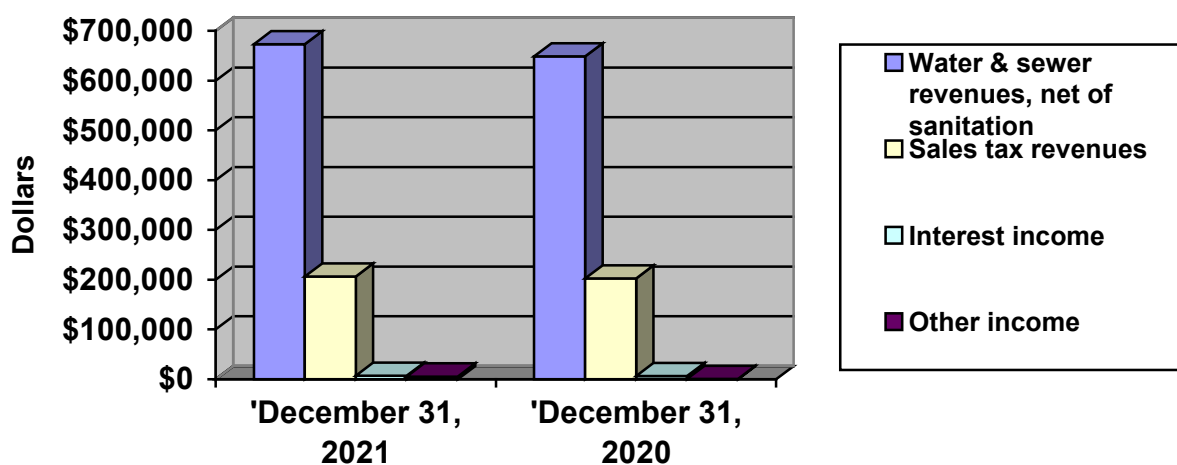
**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

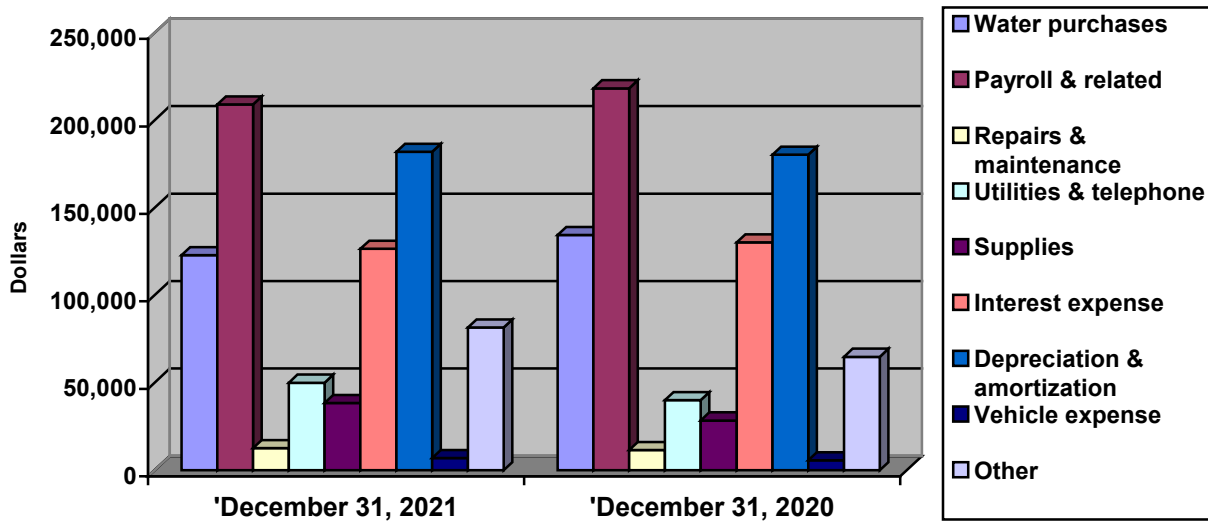


Revenues of the Department presented in a graph format



**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020**

Expenses of the Department presented in a graph format



CAPITAL ASSETS

The Department's capital assets as of December 31, 2021 and 2020 amounted to \$7,607,797 and \$7,561,498 respectively. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment.

Current year additions consisted of new fencing and a gate, several pumps, and 3 trucks totaling \$46,299.

LONG-TERM DEBT

As of December 31, 2021, the Department had \$2,727,879 in outstanding debt compared to \$2,881,055 as of December 31, 2020. Debt service during the year totaled \$262,287. Additional detail of the Department's debt activity is in the notes to the financial statements.

CHANGE IN NET POSITION

For the year ended June 30, 2022, the Department's change of net position was an increase of \$87,020. Operating revenues of \$678,405 increased by \$29,186 (4.5%) from prior year. Operating expenses of \$703,433 increased by \$20,135 (2.95%) from prior year.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Department's customers, investors and other interested parties with an overview of the Department'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 City of Mansfield Water and Sewer Department, P.O. Box 307, Mansfield, Arkansas 72944.

FINANCIAL STATEMENTS

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 175,236	\$ 132,184
Restricted checking accounts	166,907	141,062
Accounts receivable, net of allowance for doubtful accounts	72,597	54,831
Restricted investments	207,687	205,724
Prepaid expenses	5,105	1,971
Total Current Assets	627,532	535,772
Noncurrent Assets - Capital Assets		
Land	47,602	47,602
Buildings and improvements	128,660	118,810
Water system	7,098,688	7,098,688
Machinery and equipment	216,421	205,472
Office equipment	15,512	15,512
Transportation equipment	100,914	75,414
Total	7,607,797	7,561,498
Less accumulated depreciation	(3,822,425)	(3,640,467)
Net Noncurrent Assets - Capital Assets	3,785,372	3,921,031
Total Assets	4,412,904	4,456,803
Deferred Outflows		
Deferred amount on refunding of debt, net of amortization	151,327	165,514
Total Deferred Outflows	151,327	165,514
Total Assets and Deferred Outflows of Resources	\$ 4,564,231	\$ 4,622,317

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2021	2020
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 9,480	\$ 2,179
Accrued interest	5,707	5,566
Customer meter deposits	105,905	105,386
Current portion of long-term debt	160,073	153,171
Total Current Liabilities	281,165	266,302
Long-term Debt, Net of Unamortized Bond Discounts	2,534,991	2,691,993
Total Liabilities	2,816,156	2,958,295
Deferred Inflows		
Deferred interest income, net of accumulated amortization	17,057	20,024
Total Deferred Inflows	17,057	20,024
Net Position		
Net investment in capital assets	1,241,635	1,241,381
Restricted	201,979	200,158
Unrestricted	287,404	202,459
Total Net Position	1,731,018	1,643,998
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,564,231	\$ 4,622,317

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2021	2020
Operating Revenue		
Water revenues, net of sanitation fees	\$ 666,006	\$ 641,361
Sewer payment income	7,200	7,200
Other income	5,199	658
Total Operating Revenue	678,405	649,219
Operating Expenses		
Water purchases	122,925	134,364
Advertising	180	-
Depreciation expense	181,957	180,350
Insurance	12,613	11,021
Bank fees	549	1,330
Professional fees	7,245	6,433
Trustee fees	4,631	6,425
Repairs and maintenance	12,642	11,463
Salaries, taxes and related benefits	209,031	218,299
Software support	3,410	3,519
Dues and subscriptions	1,260	699
Supplies	38,386	28,425
Meetings, conferences, and travel	122	467
Utilities and telephone	50,016	39,981
Postage	4,382	3,685
Vehicle expense	6,975	5,611
Other operating supplies	47,109	31,226
Total Operating Expenses	703,433	683,298
Net Loss From Operations	(25,028)	(34,079)
Other Income (Expenses)		
Interest income	6,981	6,139
Income from sales tax	206,083	202,575
Interest expense	(126,516)	(130,250)
Total Net Other Income (Expenses)	86,548	78,464
Net Income Before Transfers	61,520	44,385
Operating Transfers	25,500	-
Change in Net Position	87,020	44,385
Net Position at Beginning of Year	1,643,998	1,599,613
Net Position at End of Year	\$ 1,731,018	\$ 1,643,998

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2021	2020
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 828,541	\$ 771,218
Cash receipts from other sources	12,399	7,858
Cash payments to suppliers for goods and services	(488,060)	(409,166)
Cash payments to employees for services	(209,031)	(218,299)
Net Cash Provided By Operating Activities	143,849	151,611
Cash Flows From Noncapital and Related Financing Activities		
Sales tax revenue for bonds	206,083	202,575
Net Cash Provided By Noncapital and Related Financing Activities	206,083	202,575
Cash Flows From Capital and Related Financing Activities		
Fixed asset additions	(46,299)	(3,522)
Operating transfers	25,500	-
Principal paid on long-term debt	(153,176)	(156,404)
Interest paid on long-term debt	(109,111)	(113,597)
Net Cash Used By Capital and Related Financing Activities	(283,086)	(273,523)
Cash Flows From Investing Activities		
Net investment activity	(1,963)	16,281
Interest income, less deferred portion	4,014	2,922
Net Cash Provided By Investing Activities	2,051	19,203
Net Increase In Cash, Cash Equivalents and Restricted Cash	68,897	99,866
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	273,246	173,380
Cash, Cash Equivalents and Restricted Cash at End of Year	\$ 342,143	\$ 273,246
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 175,236	\$ 132,184
Restricted checking accounts	166,907	141,062
Total Cash, Cash Equivalents and Restricted Cash	\$ 342,143	\$ 273,246
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net loss from operations	\$ (25,028)	\$ (34,079)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	181,957	180,350
(Increase) decrease in:		
Accounts receivable	(17,766)	6,433
Prepaid insurance	(3,134)	(110)
Increase (decrease) in:		
Accounts payable	7,301	(5,001)
Customer deposits	519	4,018
Net Cash Provided By Operating Activities	\$ 143,849	\$ 151,611

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Nature of Operations

The City of Mansfield, Arkansas Water and Sewer Department (the Department) is an extension of the services provided by the City of Mansfield, Arkansas to its citizens. The City of Mansfield, through its mayor and city council, has oversight authority over the Water Department. The Department provides water, which it purchases, to its customers, and also provides sewer within the city limits. The City Council of Mansfield, Arkansas sets user charges, establishes budgets, selects management, and controls all aspects of the Water Department's daily operations.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

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

The Department 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.

The Department is considered to be a component unit of the City of Mansfield. These financial statements reflect only the Water Department Enterprise Fund of the City of Mansfield, Arkansas and, accordingly, do not reflect other activities, funds and account groups of the City.

b. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Department. The Department accounts for its operations as an enterprise fund.

c. Income Taxes

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

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

d. Cash Equivalents

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

e. Accounts Receivable

Accounts receivable consists of water and sewer fees and surcharges billed to residential and commercial/industrial customers based on consumption. 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 \$695 and \$25 on December 31, 2021 and 2020, respectively.

f. Investments

Investments are presented at fair value. Restricted investments, consist primarily of U.S. Government securities designated as a debt service reserve fund and a construction fund and an institutional money market fund designated to service semi-annual bond payments.

g. Capital Outlays and Depreciation

Capital outlays of the Department are stated at cost. Depreciation is computed using the straight-line methods 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:

Buildings and improvements	10-20
Water system	20-70
Machinery and equipment	5-10
Office equipment	5
Transportation equipment	5-7

It is the Department's policy to capitalize asset purchases greater than \$500 and expense asset purchases less than \$500.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

h. Prepaid Expenses

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

i. Deferred Outflows and 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.

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 Department recognizes deferred inflows of resources related to deferred interest income.

j. Bond Discount

The bond discount is being amortized using the straight-line method over the life of the bonds. The unamortized portion is netted with total long-term debt.

k. 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 sixty 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. Due to the immateriality of the amount the Department did not make an accrual.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

I. Customer Meter Deposits

Customers are required to make a meter deposit before being connected to the water system. These deposits are refundable to customers when the Department no longer serves the customer. The Department uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

m. Net Position

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

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

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

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

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

n. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Department. 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.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

1. Summary of Significant Accounting Policies (continued)

o. Estimates

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

p. New Accounting Pronouncements

The Department adopted the following pronouncement during the year:

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. See footnote 7 for additional information on the implementation of this standard.

2. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Department's deposits may not be recovered. The Department 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 December 31, 2021 and 2020, the Department had no deposits that were uninsured or uncollateralized. Independent third parties held securities in the Department's name as collateral at December 31, 2021 and 2020. The bank balances and carrying amount of the Department's deposits held were as follows:

Description	At December 31, 2021		At December 31, 2020	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 370,855	\$ 342,043	\$ 298,571	\$ 273,146
Cash on hand		100		100
Total	\$ 370,855	\$ 342,143	\$ 298,571	\$ 273,246

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

2. Deposits (continued)

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

As Of December 31,	2021	2020
Cash and cash equivalents	\$ 175,236	\$ 132,184
Restricted cash and cash equivalents	166,907	141,062
Total	\$ 342,143	\$ 273,246

3. Restricted Cash and Investments

As of December 31,	2021	2020
Restricted checking accounts:		
Customer meter deposit fund	\$ 70,392	\$ 70,212
Debt service depreciation reserve fund	29,056	49,171
Debt service reserve fund	67,459	21,679
Total restricted savings	\$ 166,907	\$ 141,062

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

As Of December 31,	2021	2020
Bond fund		
Bank OZK Money Market	\$ 16,947	\$ 16,522
Fidelity Investments Money Market	1,914	1,912
Mansfield, AR Wtr/Swr Rev Bond	1	1
Debt service reserve		
Bank OZK Money Market	585	30
2.50% US Treasury Note	-	173,019
Korea Development BK Commercial Paper	174,000	-
Fidelity Investments Money Market	14,240	14,240
Total restricted investments	\$ 207,687	\$ 205,724

4. Investments

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

State statutes authorize the Department 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

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

4. Investments (continued)

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 Department 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 Department 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 Department of Columbia.

Investments consist of accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due and a debt service reserve equal to one-half of the maximum annual debt service requirement for the bonds. The investments are stated at fair market value, which approximates cost.

As Of December 31, 2021	Cost	FMV
Bond fund		
Bank OZK Money Market	\$ 16,947	\$ 16,947
Fidelity Investments Money Market	1,914	1,914
Mansfield, AR Wtr/Swr Rev Bond	1	1
Debt service reserve		
Bank OZK Money Market	585	585
Korea Development BK Commercial Paper	174,000	174,000
Fidelity Investments Money Market	14,240	14,240
Total restricted investments	\$ 207,687	\$ 207,687

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

4. Investments (continued)

As Of December 31, 2020	Cost	FMV
Bond fund		
Bank OZK Money Market	\$ 16,522	\$ 16,522
Fidelity Investments Money Market	1,912	1,912
Mansfield, AR Wtr/Swr Rev Bond	1	1
Debt service reserve		
Bank OZK Money Market	30	30
2.50% US Treasury Note	173,460	173,019
Fidelity Investments Money Market	14,240	14,240
Total restricted investments	\$ 206,165	\$ 205,724

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 Board's investments are not subject to interest rate risk as the investments are short-term in nature.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Board's investments are unrated, but institutional money market accounts generally invest in U.S. Treasury bills, federal agency notes, certificates of deposit and commercial paper which are all investments permitted by Arkansas statutes.

5. 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.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

5. Fair Value Measurements (continued)

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 Department 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 Department 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 December 31, 2021.

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

	Level 1	Level 2	Level 3	Total
Bank OZK				
Institutional Money Market	\$ 17,532	\$ -	\$ -	17,532
2.50% US Treasury Note	174,000			174,000
Regions Bank				
Fidelity Investments Money Market	16,154			16,154
Mansfield, AR Wtr/Swr Rev Bond	1			1
Total	\$ 207,687	\$ -	\$ -	207,687

6. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2021	Additions & Contributions	Retirements	December 31, 2021
Land	\$ 47,602	\$ -	\$ -	47,602
Buildings and improvements	118,810	9,850	-	128,660
Water system	7,098,688	-	-	7,098,688
Machinery and equipment	205,472	10,949	-	216,421
Office equipment	15,512	-	-	15,512
Transportation equipment	75,414	25,500	-	100,914
Total	\$ 7,561,498	\$ 46,299	\$ -	7,607,797

CITY OF MANSFIELD, ARKANSAS WATER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

6. Capital Assets (continued)

As Of	January 1, 2020	Additions & Contributions	Retirements	December 31, 2020
Land	\$ 47,602	\$ -	\$ -	\$ 47,602
Buildings and improvements	118,810	-	-	118,810
Water system	7,095,166	3,522	-	7,098,688
Machinery and equipment	205,472	-	-	205,472
Office equipment	15,512	-	-	15,512
Transportation equipment	75,414	-	-	75,414
Total	\$ 7,557,976	\$ 3,522	\$ -	\$ 7,561,498

7. Asset Retirement Obligation

The Department adopted GASB Statement No. 83, Certain Asset Retirement Obligations, during the year. As asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. Under the new accounting standard, the Department 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 Department to perform asset retirement activities. The Department owns and operates a wastewater treatment plant, and the existence of laws and regulations to decommission the plant falls within the scope of GASB 83.

The Department utilizes a Sequans Batch Reactor (SBR), also known as a package plant. The plant began operating in 2008 and is operating efficiently and effectively with no plans to change the system. The Department is not reporting an ARO on the Statement of Net Position because the Department does not have an estimate of the cost to discontinue usage of the SBR plan and the life expectancy cannot be reasonably determined at this point. An ARO will be recorded if future events necessitate a change.

8. Long-Term Debt

Long-term debt consists of:

As Of December 31,	2021	2020
2012 Series Revenue Refunding Bonds, issued September 5, 2012, in the original amount of \$2,375,000. The bonds yield varying rates of interest ranging from 2.00% to 4.00%. Final maturity of the bonds is December 1, 2032. Security for the bonds is a pledge of collections from the 1% sales and use tax levied by the City and revenues from the Department.	\$ 1,495,000	\$ 1,605,000

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

CITY OF MANSFIELD, ARKANSAS WATER

NOTES TO FINANCIAL STATEMENTS

8. Long-Term Debt (continued)

Arkansas Natural Resources Commission - payments are made semi-annually of \$7,120 inclusive of interest of 4.5%. The note is secured by revenues of the Department and is scheduled to mature June 1, 2028.

76,550 86,992

Rural Development - payments are made monthly in the amount of \$2,502 inclusive of interest of 4.125%. The note is secured by revenues of the Department and is scheduled to mature in the year 2046.

466,406 476,955

Rural Development - payments are made monthly in the amount of \$3,584 inclusive of interest of 4.125%. The note is secured by revenues of the Department and is scheduled to mature in the year 2046.

669,238 684,302

4.75% not payable to Chambers Bank, payable \$692.08 per month, principal and interest, with the final payment due August 13, 2024. This loan is secured by equipment.

20,685 27,806

Total	2,727,879	2,881,055
Less current portion	160,073	153,171
Long-Term Debt	2,567,806	2,727,884
Less unamortized discount on bonds	32,815	35,891
Long-term debt, net	\$ 2,534,991	\$ 2,691,993

Activity of the long-term debt consists of the following:

As Of	January 1, 2021	Additions & Contributions	Retirements	December 31, 2021	Due Within One Year
2012 Series					
Refunding Bonds	\$ 1,605,000	\$ -	\$ 110,000	\$ 1,495,000	\$ 115,000
ANRC	86,992	-	10,442	76,550	10,917
Rural Development 92-	1,161,257	-	25,613	1,135,644	26,687
Chambers Bank	27,806	-	7,121	20,685	7,469
Total	\$ 2,881,055	\$ -	\$ 153,176	\$ 2,727,879	\$ 160,073

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

8. Long-Term Debt (continued)

As Of	January 1, 2020	Additions & Contributions	Retirements	December 31, 2020	Due Within One Year
2012 Series					
Refunding Bonds	\$ 1,720,000	\$ -	\$ 115,000	\$ 1,605,000	\$ 110,000
ANRC	96,979	-	9,987	86,992	10,442
Rural Development	1,185,836	-	24,579	1,161,257	25,610
Chambers Bank	34,644	-	6,838	27,806	7,119
Total	\$ 3,037,459	\$ -	\$ 156,404	\$ 2,881,055	\$ 153,171

Debt is scheduled to mature as follows:

December 31,	Principal	Interest	Total
2022	\$ 160,073	\$ 104,189	\$ 264,262
2023	162,059	98,838	260,897
2024	166,289	96,073	262,362
2025	167,672	87,545	255,217
2026	167,914	81,584	249,498
2027-2031	926,678	304,941	1,231,619
2032-2036	384,083	152,677	536,760
2037-2041	269,172	95,989	365,161
2042-2046	323,939	34,004	357,943
Total	\$ 2,727,879	\$ 1,055,840	\$ 3,783,719

Each of the Department'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 Department on behalf of the issuer until all defaults have been cured; and assessing additional interest, penalties and other charges, foreclose on any security, offset amounts to be paid to you under other federal programs, refer your account to a collection agency and report the Department's default to a credit agency.

9. Unamortized Bond Discount/Deferred Loss on Refunding

The bond issue discount represents the additional interest (over and above any cash interest) over the term of the bonds. This original issue discount, related to the 2012 Series Revenue Refunding Bonds, is being amortized using the straight-line method over the life of the bond issue which is twenty years. Amortization of the bond discount for both of the years ended December 31, 2021 and 2020 was \$3,076 and is included in interest and fees on long-term debt in the statement of revenues, expenses, and changes in net position. The unamortized portion is netted with total long-term debt.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

9. Unamortized Bond Discount/Deferred Loss on Refunding (continued)

The deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The balance of \$151,327 and \$165,514 at December 31, 2021 and 2020, respectively, is shown as deferred outflows on the statement of net position and is being amortized using the straight-line method over the life of the bond issue which is twenty years. Amortization of the deferred loss for both of the years ended December 31, 2021 and 2020 was \$14,187 and is included in interest and fees on long-term debt in the statement of revenues, expenses, and changes in net position.

10. Debt Service Reserve

The Rural Development Loan resolution specified for loans 92-06 and 92-08 with balances of \$466,407 and \$669,238 have a minimum reserve account of \$30,024 and \$43,008 respectively at December 31, 2021. This is based upon the maximum annual principal and interest due in any future period following the latest loan issue. The Department currently does not have a specific minimum reserve account set up for these loans.

11. Commitments and Contingencies

The Trust Indenture of the Bonds contains a provision (the Rate Covenant) which requires the Department 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 110% of the debt service requirements for the current fiscal year of all outstanding Bonds and Parity obligations. For the years ended December 31, 2021 and 2020, the Department had satisfied all the covenants of the Bonds Trust Indenture.

12. Concentrations of Credit Risk

Financial instruments that potentially subject the Department to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

The Department receives 10% of its water revenue from one customer. A significant reduction or a total discontinuance of this revenue, if this were to occur, may have a significant effect on the Department's ability to continue in its current state.

The Department purchases its water from the James Fork Regional Water Department in Greenwood, Arkansas. If the cost of the water was to increase or the possibility of the Department to have to obtain water from another supplier was to occur, this may also have an effect on the Department's ability to continued in its current state.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

13. Sales Tax Revenue

Sales tax revenue for the previous 5 years consists of the following

Year Ending December 31,		
2021	\$	206,083
2020		202,575
2019		174,866
2018		176,624
2017		158,933
Total	\$	919,081

14. Risk Management

The Department is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department carries vehicle and liability insurance through Arkansas Municipal League. Workers compensation insurance is handled through Arkansas Municipal League Workers Compensation Trust.

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

15. Subsequent Events

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2021 through March, 25, 2022, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

SCHEDULE OF BONDS OUTSTANDING

DECEMBER 31, 2021

Year	Principal	Interest Rate	Interest June 1,	Interest December 1,	Total
2022	\$ 115,000	2.750	\$ 26,842	\$ 26,843	\$ 168,685
2023	115,000	3.100	25,175	25,175	165,350
2024	120,000	3.300	23,392	23,393	166,785
2025	125,000	3.400	21,472	21,473	167,945
2026	130,000	3.500	19,410	19,410	168,820
2027	135,000	3.625	17,200	17,200	169,400
2028	140,000	4.000	14,837	14,838	169,675
2029	145,000	4.000	12,300	12,300	169,600
2030	150,000	4.000	9,400	9,400	168,800
2031	155,000	4.000	6,400	6,400	167,800
2032	165,000	4.000	3,300	3,300	171,600
	\$ 1,495,000		\$ 179,728	\$ 179,732	\$ 1,854,460

See independent auditor's report.

ADDITIONAL REQUIRED 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 Honorable Mayor and City Council
City of Mansfield, Arkansas Water and Sewer Department
Mansfield, 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 City of Mansfield Water and Sewer Department (the Department), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated March 25, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 Department's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This 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 Department's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Department'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, 2022