

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

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021



**CITY OF MANSFIELD, ARKANSAS WATER
AND SEWER DEPARTMENT
DECEMBER 31, 2022 AND 2021**

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Independent Auditor's 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022, 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.

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 14, 2023 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 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021**

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, 2022 and 2021 with a net position balance of \$1,772,377 and \$1,731,018.
- The change in net position or net income of the Department was an increase of \$44,199 and \$87,020 for the years ended December 31, 2022 and 2021.
- The statement of cash flows identifies sources and uses of cash activity for the calendar year. For calendar year 2022, cash, cash equivalents and restricted cash increased by \$83,792. Cash provided from the day-to-day operations resulted in positive cash flows of \$126,209. Cash used by capital and related financing activities totaled \$267,101. This consisted of debt service of \$264,261 and \$2,840 transferred to the street fund. Cash provided by noncapital and related financing activities totaled \$223,530, which was all sales tax revenue for bond payments. Furthermore, cash provided by investing activities totaled \$1,154.

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, 2022 and 2021. 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, 2022 AND 2021**

CONDENSED FINANCIAL INFORMATION

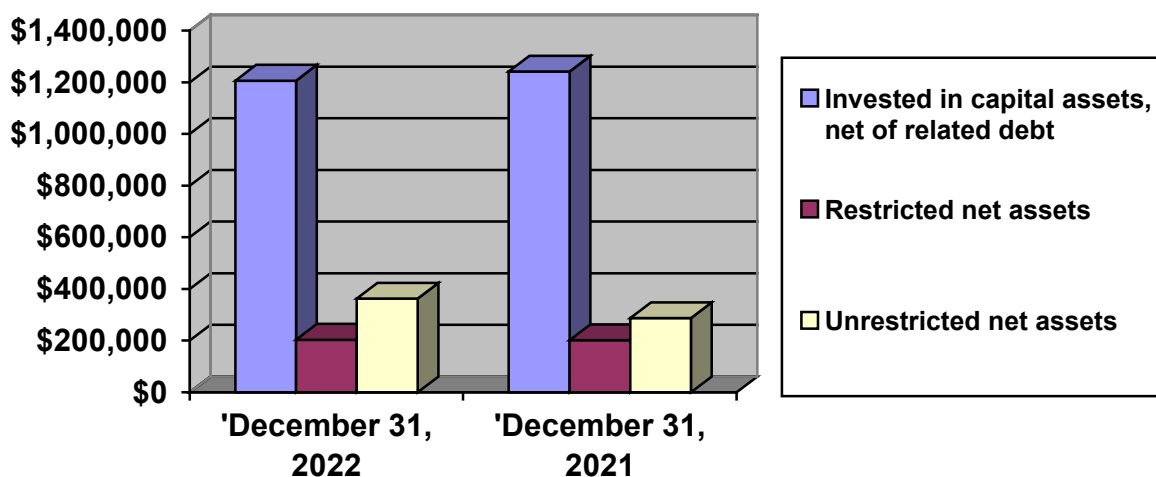
Condensed financial information from the statement of net position as of December 31, 2022 and 2021 and the statement of revenues, expenses and changes in net position for the years then ended are as follows:

	December 31,	
	2022	2021
Current assets	\$ 704,010	\$ 627,532
Capital assets, net	3,607,553	3,785,372
Total assets	<u>4,311,563</u>	<u>4,412,904</u>
Deferred outflows	<u>137,140</u>	<u>151,327</u>
Current liabilities	286,232	281,165
Long-term debt	2,376,004	2,534,991
Total liabilities	<u>2,662,236</u>	<u>2,816,156</u>
Deferred inflows	<u>14,090</u>	<u>17,057</u>
Net assets:		
Invested in capital assets, net of related debt	1,206,630	1,241,635
Restricted	203,413	201,979
Unrestricted	362,334	287,404
Total net assets	<u>\$ 1,772,377</u>	<u>\$ 1,731,018</u>
Operating revenues	\$ <u>697,257</u>	\$ <u>678,405</u>
Operating expenses, excluding depreciation	582,876	521,476
Depreciation	177,819	181,957
Total operating expenses, including depreciation	<u>760,695</u>	<u>703,433</u>
Operating loss	(63,438)	(25,028)
Nonoperating revenues/(expenses)	<u>107,637</u>	<u>86,548</u>
Net income before transfers	44,199	61,520
Operating transfers	(2,840)	25,500
Change in net position	41,359	87,020
Net position at beginning of year	1,731,018	1,643,998
Net position at end of year	<u>\$ 1,772,377</u>	<u>\$ 1,731,018</u>

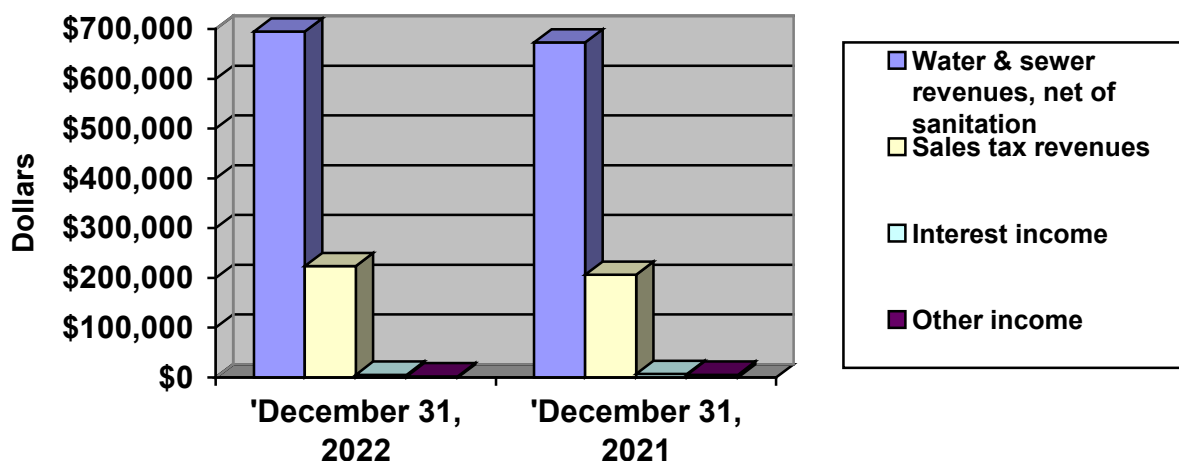
**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

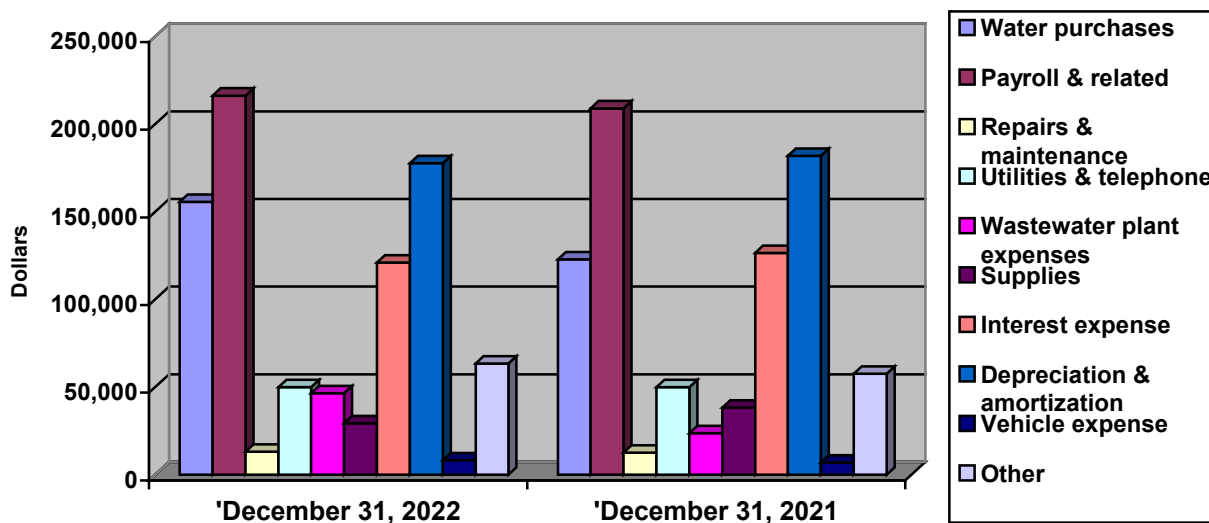


Revenues of the Department presented in a graph format



**CITY OF MANSFIELD WATER AND SEWER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022 AND 2021**

Expenses of the Department presented in a graph format



CAPITAL ASSETS

The Department's capital assets as of December 31, 2022 and 2021 amounted to \$7,607,797. This investment in capital assets includes land, water system, the office building, machinery and equipment, office furniture and fixtures, and transportation equipment.

There were no current year additions.

LONG-TERM DEBT

As of December 31, 2021, the Department had \$2,567,801 in outstanding debt compared to \$2,727,879 as of December 31, 2021. Debt service during the year totaled \$264,261. 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, 202, the Department's change of net position was an increase of \$41,359. Operating revenues of \$697,257 increased by \$29,186 (2.8%) from prior year. Operating expenses of \$760,695 increased by \$57,262 (8.1%) 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,	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 208,170	\$ 175,236
Restricted cash and cash equivalents	236,215	184,439
Accounts receivable, net of allowance for doubtful accounts	66,593	72,597
Restricted investments	190,339	190,155
Prepaid expenses	2,693	5,105
Total Current Assets	704,010	627,532
Noncurrent Assets - Capital Assets		
Land	47,602	47,602
Buildings and improvements	128,660	128,660
Water system	7,098,688	7,098,688
Machinery and equipment	216,421	216,421
Office equipment	15,512	15,512
Transportation equipment	100,914	100,914
Total	7,607,797	7,607,797
Less accumulated depreciation	(4,000,244)	(3,822,425)
Net Noncurrent Assets - Capital Assets	3,607,553	3,785,372
Total Assets	4,311,563	4,412,904
Deferred Outflows		
Deferred amount on refunding of debt, net of amortization	137,140	151,327
Total Deferred Outflows	137,140	151,327
Total Assets and Deferred Outflows of Resources	\$ 4,448,703	\$ 4,564,231

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2022	2021
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 10,470	\$ 9,480
Accrued interest	5,377	5,707
Customer meter deposits	108,326	105,905
Current portion of long-term debt	162,059	160,073
Total Current Liabilities	286,232	281,165
Long-term Debt, Net of Unamortized Bond Discounts	2,376,004	2,534,991
Total Liabilities	2,662,236	2,816,156
Deferred Inflows		
Deferred interest income, net of accumulated amortization	14,090	17,057
Total Deferred Inflows	14,090	17,057
Net Position		
Net investment in capital assets	1,206,630	1,241,635
Restricted	203,413	201,979
Unrestricted	362,334	287,404
Total Net Position	1,772,377	1,731,018
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,448,703	\$ 4,564,231

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,	2022	2021
Operating Revenue		
Water revenues, net of sanitation fees	\$ 688,580	\$ 666,006
Sewer payment income	6,600	7,200
Other income	2,077	5,199
Total Operating Revenue	697,257	678,405
Operating Expenses		
Water purchases	155,702	122,925
Chemicals	1,394	-
Advertising	170	180
Depreciation expense	177,819	181,957
Insurance	15,103	12,613
Inspection expense	4,400	4,413
Bank fees	918	549
Professional fees	8,880	7,245
Trustee fees	2,400	4,631
Permits	2,720	2,820
Repairs and maintenance	13,201	12,642
Salaries, taxes and related benefits	216,314	209,031
Software support	4,509	3,410
Dues and subscriptions	1,547	1,260
Supplies	29,331	38,387
Wastewater plant expenses	46,579	23,816
Meetings, conferences, and travel	452	122
Utilities and telephone	50,014	50,016
Postage	4,623	4,382
Vehicle expense	8,217	6,975
Other operating supplies	16,402	16,059
Total Operating Expenses	760,695	703,433
Net Loss From Operations	(63,438)	(25,028)
Other Income (Expenses)		
Interest income	5,224	6,981
Income from sales tax	223,530	206,083
Interest expense	(121,117)	(126,516)
Total Net Other Income (Expenses)	107,637	86,548
Net Income Before Transfers	44,199	61,520
Operating Transfers	(2,840)	25,500
Change in Net Position	41,359	87,020
Net Position at Beginning of Year	1,731,018	1,643,998
Net Position at End of Year	\$ 1,772,377	\$ 1,731,018

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2022	2021
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 872,369	\$ 828,541
Cash receipts from other sources	8,677	12,399
Cash payments to suppliers for goods and services	(538,524)	(488,060)
Cash payments to employees for services	(216,314)	(209,031)
Net Cash Provided By Operating Activities	126,208	143,849
Cash Flows From Noncapital and Related Financing Activities		
Sales tax revenue for bonds	223,530	206,083
Net Cash Provided By Noncapital and Related Financing Activities	223,530	206,083
Cash Flows From Capital and Related Financing Activities		
Fixed asset additions	-	(46,299)
Operating transfers	(2,840)	25,500
Principal paid on long-term debt	(160,078)	(153,176)
Interest paid on long-term debt	(104,183)	(109,111)
Net Cash Used By Capital and Related Financing Activities	(267,101)	(283,086)
Cash Flows From Investing Activities		
Net investment activity	(184)	(983)
Interest income, less deferred portion	2,257	4,014
Net Cash Provided By Investing Activities	2,073	3,031
Net Increase In Cash, Cash Equivalents and Restricted Cash	84,710	69,877
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	359,675	289,798
Cash, Cash Equivalents and Restricted Cash at End of Year	\$ 444,385	\$ 359,675
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 208,170	\$ 175,236
Restricted checking accounts	236,215	184,439
Total Cash, Cash Equivalents and Restricted Cash	\$ 444,385	\$ 359,675
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net loss from operations	\$ (63,438)	\$ (25,028)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	177,819	181,957
(Increase) decrease in:		
Accounts receivable	6,004	(17,766)
Prepaid insurance	2,412	(3,134)
Increase (decrease) in:		
Accounts payable	990	7,301
Customer deposits	2,421	519
Net Cash Provided By Operating Activities	\$ 126,208	\$ 143,849

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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

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.

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. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

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.

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 (\$836) and \$695 on December 31, 2022 and 2021, respectively.

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 years
Water system	10 - 70 years
Machinery and equipment	5 - 10 years
Office equipment	5 years
Transportation equipment	5 - 7 years

It is the Department's policy to capitalize asset purchases greater than \$5,000 and expense asset purchases less than \$5,000.

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.

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.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

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.

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. No accrual for compensated absences has been recorded as the amount is not material to the financial statements.

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.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Department's principal ongoing operations. The principal operating revenues of the Department consist of water sales and fees for sewer and miscellaneous services. Operating expenses include the cost of these goods and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

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".

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

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.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

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

GASB Statement No. 87, *Leases*. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of a right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

GASB Statement No. 92, *Omnibus 2020*. The purpose of this statement is to enhance comparability in accounting and financial reporting to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain pension and other post employment retirement plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans.

GASB Statement No. 98, *the Annual Comprehensive Financial Report*. The purpose of this statement is to establish the term annual comprehensive financial report and its acronym ACFR to replace the term comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

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

Reclassifications

Certain 2021 amounts have been reclassified in order to conform with the 2022 financial statement presentation. Net position and changes in net position are unchanged due to these reclassifications.

2. Deposits and Investments

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a Board's deposits may not be recovered. At December 31, 2022 and 2021, 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, 2022 and 2021. The bank balances and carrying amount of the Department's deposits held were as follows:

Description	At December 31, 2022		At December 31, 2021	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 318,158	\$ 332,106	\$ 295,978	\$ 296,588
Collateralized - held by pledging bank or pledging bank's trust department in the Department's name	154,220	112,179	92,410	62,987
Cash on hand	-	100	-	100
Total	\$ 472,378	\$ 444,385	\$ 388,388	\$ 359,675

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

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

As Of December 31,	2022	2021
Cash and cash equivalents	\$ 208,170	\$ 175,236
Restricted cash and cash equivalents	236,215	184,439
Total	\$ 444,385	\$ 359,675

Investments

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 reserves. The investments are stated at fair market value, which approximates cost.

The 2012 Bond trust indenture allows for investments in commercial paper which is rated at the time of purchase in the single highest classification and matures not more than 270 calendar days after the date of purchase. While this is not an investment permitted by state statutes, it is permitted by the trust indenture.

The Department's investments consist of the following:

As Of December 31, 2022	Market	Weighted Avg. Maturity	Credit Rating
Bond funds:			
Government Money Market	\$ 2,098	35 days	AAA-mf
Mansfield, AR Wtr/Swr Rev Bond	1		N/A
Debt service reserves:			
First ABU DHABI Commercial Paper	174,000	151 days	P1
Government Money Market	14,240	35 days	AAA-mf
Total	\$ 190,339		

As Of December 31, 2021	Market	Weighted Avg. Maturity	Credit Rating
Bond fund			
Government Money Market	1,914	33 days	AAA-mf
Mansfield, AR Wtr/Swr Rev Bond	1		N/A
Debt service reserve			
Korea Development BK Commercial Paper	174,000	151 days	P1
Government Money Market	14,240	33 days	AAA-mf
Total restricted investments	\$ 190,155		

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

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 Department'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. With the exception of the commercial paper, which is uninsured, the Departments investments are FDIC insured or are invested in U.S. Treasury securities, which are generally considered to be risk-free as they have the backing of the government.

Foreign Currency Risk

The value of investments denominated in foreign currency may be adversely affected by changes in foreign currency exchange rates. The Department minimizes its foreign currency risk by keeping its investments short-term. The Department's net exposure to foreign currency risk in U.S. dollars as of December 31, 2022 is \$174,000.

Custodial Credit Risk

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

Fair Value Measurement

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

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

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

Level 3 - Unobservable inputs

The following table represents the Department's investments that are measured at fair value on a recurring basis at December 31, 2022:

		Level 1	Level 2	Level 3	Total
Bank OZK					
First ABU DHABI Commercial Paper	\$	174,000	\$	- \$	- \$ 174,000

CITY OF MANSFIELD, ARKANSAS WATER

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

2. Deposits and Investments (continued)

Regions Bank				
Government Money Market	16,338	-	-	16,338
Mansfield, AR Wtr/Swr Rev Bond	1	-	-	1
Total	\$ 190,339	\$ -	\$ -	\$ 190,339

3. Restricted Cash and Investments

Accounts re restricted for the following:

As of December 31,	2022	2021
Restricted checking accounts:		
Customer meter deposit fund	\$ 68,144	\$ 70,392
Fire hydrant depreciation fund	27,214	-
Debt service reserve fund	37,031	29,641
Depreciation reserve fund	85,966	67,459
Bond fund	17,860	16,947
Total restricted checking and savings	\$ 236,215	\$ 184,439

As of December 31,	2022	2021
Bond funds	\$ 2,099	\$ 1,915
Debt service reserve funds	188,240	188,240
Total restricted investments	\$ 190,339	\$ 190,155

4. Capital Assets

Activity of capital assets consists of the following:

As Of	January 1, 2022	Additions & Contributions	Retirements	December 31, 2022
Land	\$ 47,602	\$ -	\$ -	\$ 47,602
Buildings and improvements	128,660	-	-	128,660
Water system	7,098,688	-	-	7,098,688
Machinery and equipment	216,421	-	-	216,421
Office equipment	15,512	-	-	15,512
Transportation equipment	100,914	-	-	100,914
Total	\$ 7,607,797	\$ -	\$ -	\$ 7,607,797

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

CITY OF MANSFIELD, ARKANSAS WATER NOTES TO FINANCIAL STATEMENTS

4. Capital Assets (continued)

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

5. Asset Retirement Obligation

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.

6. Long-Term Debt

Long-term debt consists of:

As Of December 31,	2022	2021
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.	\$ 1,380,000	\$ 1,495,000

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

6. Long-Term Debt (continued)

Arkansas Natural Resources Commission - loan dated July 17, 2003 in the amount of \$206,907. Payments of \$7,120 are made semi-annually including interest at 4.5%. The note is secured by property and equipment of the Department and is scheduled to mature June 1, 2028.	65,633	76,550
Rural Development - loan dated January 24, 2007 in the amount of \$580,500. Payments of \$2,502 are made monthly including interest at 4.125%. The note is secured by revenues of the Department and is scheduled to mature in 2046.	455,415	466,406
Rural Development - loan dated February 23, 2007 in the amount of \$831,500. Payments of \$3,584 are made monthly including interest at 4.125%. The note is secured by revenues of the Department and is scheduled to mature in 2046.	653,540	669,238
4.75% not payable to Chambers Bank, payable \$692 per month, principal and interest, with the final payment due August 13, 2024. This loan is secured by equipment.	13,213	20,685
Total	\$ 2,567,801	\$ 2,727,879
Less current portion	162,059	160,073
Long-Term Debt	2,405,742	2,567,806
Less unamortized discount on bonds	29,738	32,815
Long-term debt, net	\$ 2,376,004	\$ 2,534,991

Debt is scheduled to mature as follows:

December 31,	Direct Placements		Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 115,000	\$ 50,350	\$ 47,059	\$ 48,488
2024	120,000	46,785	46,287	46,522
2025	125,000	42,945	42,672	44,600
2026	130,000	38,820	37,914	42,764
2027	135,000	34,400	39,382	41,441
2028-2032	755,000	92,475	202,580	180,021
2033-2037	-	-	228,294	136,866
2038-2042	-	-	280,487	84,674
2043-2046	-	-	263,126	21,782
Total	\$ 1,380,000	\$ 305,775	\$ 1,187,801	\$ 647,158

CITY OF MANSFIELD, ARKANSAS WATER AND SEWER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

6. Long-Term Debt (continued)

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.

7. Changes in Long-Term Liabilities

Activity of long-term liabilities consists of the following:

As Of	January 1, 2022	Additions & Contributions	Retirements	December 31, 2022	Due Within One Year
2012 Series					
Refunding Bonds	\$ 1,495,000	\$ -	\$ 115,000	\$ 1,380,000	\$ 115,000
ANRC	76,550	-	10,917	65,633	11,413
Rural Development	1,135,644	-	26,689	1,108,955	27,809
Chambers Bank	20,685	-	7,472	13,213	7,837
Total	\$ 2,727,879	\$ -	\$ 160,078	\$ 2,567,801	\$ 162,059

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	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

8. 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, 2022 and 2021 was \$3,076 and is included in interest expenset in the Satement 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, 2022 AND 2021

8. 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 \$137,140 and \$151,327 at December 31, 2022 and 2021, 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, 2022 and 2021 was \$14,187 and is included in interest expense in the Statement of Revenues, Expenses, and Changes in Net Position.

9. Debt Service Reserve

The Rural Development Loan resolution specified for loans 92-06 and 92-08 with balances of \$455,415 and \$653,540 have a minimum reserve account of \$30,024 and \$43,008 respectively at December 31, 2022. This is based upon the maximum annual principal and interest due in any future period following the latest loan issue. The Department's debt service reserve account balance at December 31, 2022 is \$36,441 which is deficient in total by \$36,591, however, the Department has sufficient excess reserves to cover the deficiency.

10. 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, 2022 and 2021, the Department had satisfied all the covenants of the Bonds Trust Indenture.

11. 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 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, 2022 AND 2021

12. Sales Tax Revenue

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

Year Ending December 31,		
2022	\$	223,530
2021		206,083
2020		202,575
2019		174,866
2018		176,624
Total	\$	983,678

13. 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.

14. Subsequent Events

The Department has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2022 through March 14, 2023, 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, 2022

Year	Principal	Interest Rate	Interest June 1,	Interest December 1,	Total
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
	\$ 1,380,000		\$ 152,886	\$ 152,889	\$ 1,685,775

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, 2022, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated March 14, 2023.

Report on 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.

Report on 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 14, 2023