

**CITY OF MANSFIELD, ARKANSAS
WATER DEPARTMENT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019



CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT
DECEMBER 31, 2020 AND 2019

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Mansfield, Arkansas Water Department (the Department), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Mansfield Water Department as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements presents only the water 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, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the City of Mansfield, Arkansas Water Department taken as a whole. The schedule of bonds outstanding is presented for purpose of additional analysis and is not a required part of the financial statements. The schedule of bonds outstanding is the responsibility of management and was derived from and relate 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 or to 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 information 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 April 13, 2021 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 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
April 13, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF MANSFIELD WATER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

This section of the City of Mansfield Water Department annual financial report presents the analysis of the Department's financial performance during the calendar year ended December 31, 2020. 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, 2020 and 2019 with a net position balance of \$1,643,998 and \$1,599,613.
- The change in net position or net income of the Department was an increase of \$44,385 and a decrease of \$21,719 for year ended December 31, 2020 and 2019.
- The statement of cash flows identifies sources and uses of cash activity for the calendar year. For calendar year 2020, cash, cash equivalents and restricted cash increased by \$99,866. Cash provided from the day-to-day operations resulted in positive cash flows of \$151,611. Cash used by capital and related financing activities totaled \$273,523. This consisted of debt service of \$270,001 and fixed asset additions of \$3,522. Cash provided by noncapital and related financing activities totaled \$202,575, which was all sales tax revenue for bond payments. Furthermore, cash provided by investing activities totaled \$19,203.

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, 2020 and 2019. 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 DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

CONDENSED FINANCIAL INFORMATION

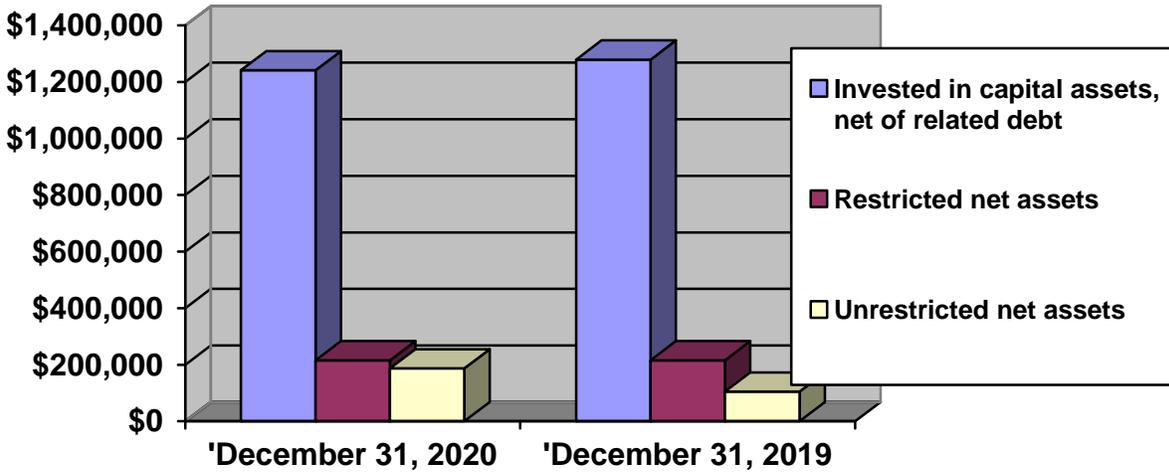
Condensed financial information from the statement of net position as of December 31, 2020 and 2019 and the statement of revenues, expenses and changes in net position for the years then ended are as follows:

	December 31,	
	2020	2019
Current assets	\$ 535,772	\$ 458,510
Capital assets, net	3,921,031	4,097,859
Total assets	<u>4,456,803</u>	<u>4,556,369</u>
Deferred outflows	<u>165,514</u>	<u>179,701</u>
Current liabilities	266,302	271,321
Long-term debt	2,691,993	2,842,146
Total liabilities	<u>2,958,295</u>	<u>3,113,467</u>
Deferred inflows	<u>20,024</u>	<u>22,990</u>
Net assets:		
Invested in capital assets, net of related debt	1,241,381	1,279,069
Restricted	200,158	215,667
Unrestricted	202,459	104,877
Total net assets	<u>\$ 1,643,998</u>	<u>\$ 1,599,613</u>
Operating revenues	<u>\$ 649,219</u>	<u>\$ 605,770</u>
Operating expenses, excluding depreciation	502,948	495,233
Depreciation	180,350	181,011
Total operating expenses, including depreciation	<u>683,298</u>	<u>676,244</u>
Operating loss	(34,079)	(70,474)
Nonoperating revenues/(expenses)	<u>78,464</u>	<u>48,755</u>
Change in net assets	44,385	(21,719)
Beginning of year net assets	1,599,613	1,621,332
End of year net assets	<u>\$ 1,643,998</u>	<u>\$ 1,599,613</u>

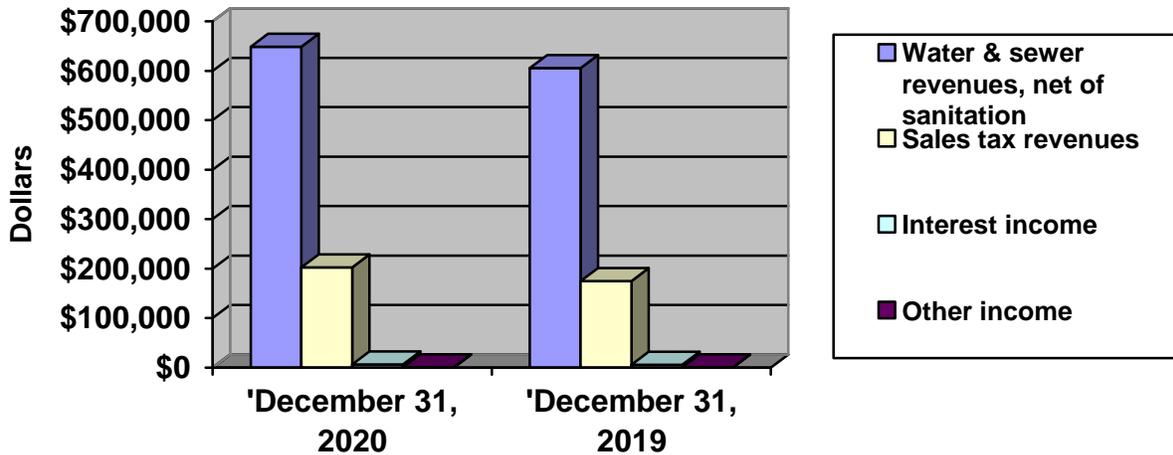
**CITY OF MANSFIELD WATER DEPARTMENT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Classifications of net assets presented in a graph format

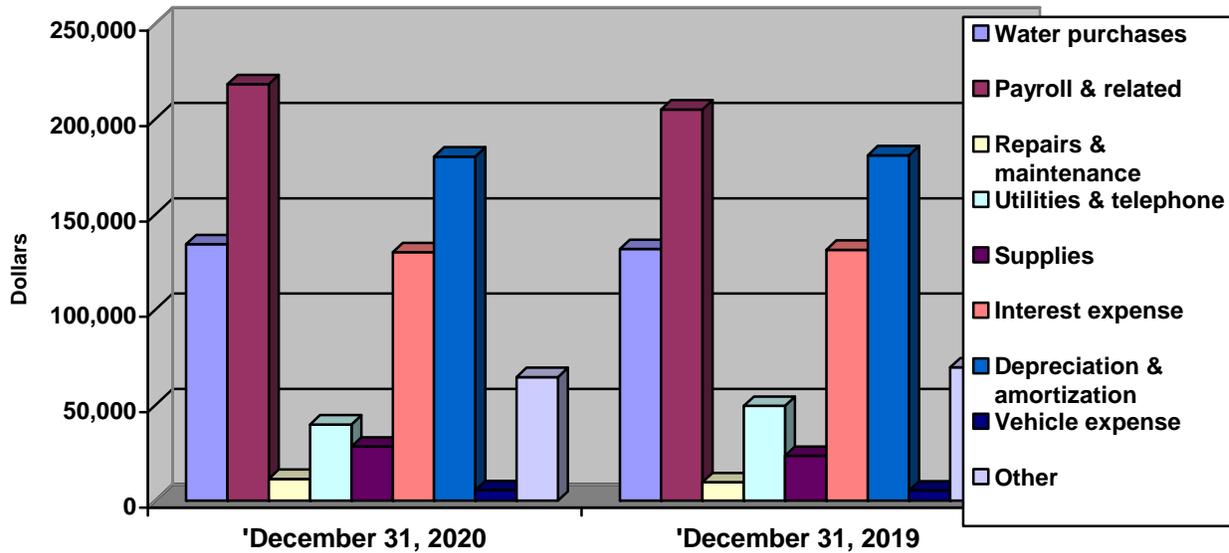


Revenues of the Department presented in a graph format



**CITY OF MANSFIELD WATER DEPARTMENT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

Expenses of the Department presented in a graph format



CAPITAL ASSETS

The Department’s capital assets as of December 31, 2020 and 2019 amounted to \$7,561,498 and \$7,557,976 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 meters for \$3,522.

LONG-TERM DEBT

As of December 31, 2020 the Department had \$2,881,055 in outstanding debt compared to \$3,037,459 as of December 31, 2019. Debt service during the year totaled \$205,724. Additional detail of the City’s debt activity is in the notes to the financial statements.

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 DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 132,184	\$ 61,123
Restricted checking accounts	141,062	112,257
Accounts receivable, net of allowance for doubtful accounts	54,831	61,264
Restricted investments	205,724	222,005
Prepaid insurance	1,971	1,861
Total Current Assets	535,772	458,510
Noncurrent Assets - Capital Assets		
Land	47,602	47,602
Buildings and improvements	118,810	118,810
Water system	7,098,688	7,095,166
Machinery and equipment	205,472	205,472
Office equipment	15,512	15,512
Transportation equipment	75,414	75,414
Total	7,561,498	7,557,976
Less accumulated depreciation	(3,640,467)	(3,460,117)
Net Noncurrent Assets - Capital Assets	3,921,031	4,097,859
Total Assets	4,456,803	4,556,369
Deferred Outflows		
Deferred amount on refunding of debt, net of amortization	165,514	179,701
Total Deferred Outflows	165,514	179,701
Total Assets and Deferred Outflows of Resources	\$ 4,622,317	\$ 4,736,070

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

STATEMENTS OF NET POSITION

AS OF DECEMBER 31,	2020	2019
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 2,179	\$ 7,180
Accrued interest	5,566	6,428
Customer meter deposits	105,386	101,368
Current portion of long-term debt	153,171	156,345
Total Current Liabilities	266,302	271,321
Long-term Debt, Net of Unamortized Bond Discounts	2,691,993	2,842,146
Total Liabilities	2,958,295	3,113,467
Deferred Inflows		
Deferred interest income, net of accumulated amortization	20,024	22,990
Total Deferred Inflows	20,024	22,990
Net Position		
Net investment in capital assets	1,241,381	1,279,069
Restricted	200,158	215,667
Unrestricted	202,459	104,877
Total Net Position	1,643,998	1,599,613
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 4,622,317	\$ 4,736,070

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31,	2020	2019
Operating Revenue		
Water revenues, net of sanitation fees	\$ 641,361	\$ 598,345
Sewer payment income	7,200	7,200
Other income	658	225
Total Operating Revenue	649,219	605,770
Operating Expenses		
Water purchases	134,364	131,879
Advertising	-	373
Depreciation expense	180,350	181,011
Insurance	11,021	9,992
Bank fees	1,330	5,740
Professional fees	6,433	10,080
Trustee fees	6,425	2,449
Repairs and maintenance	11,463	9,783
Salaries, taxes and related benefits	218,299	205,037
Software support	3,519	1,959
Dues and subscriptions	699	939
Supplies	28,425	23,530
Meetings, conferences, and travel	467	3,774
Utilities and telephone	39,981	49,766
Testing fees	-	1,632
Postage	3,685	3,539
Vehicle expense	5,611	5,352
Other operating supplies	31,226	26,641
Total Operating Expenses	683,298	673,476
Net Loss From Operations	(34,079)	(67,706)
Other Income (Expenses)		
Interest income	6,139	5,384
Income from sales tax	202,575	174,866
Interest expense	(130,250)	(134,263)
Total Net Other Income (Expenses)	78,464	45,987
Change in Net Position	44,385	(21,719)
Net Position at Beginning of Year	1,599,613	1,621,332
Net Position at End of Year	\$ 1,643,998	\$ 1,599,613

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,	2020	2019
Cash Flows From Operating Activities		
Cash receipts from customers	\$ 771,218	\$ 740,348
Cash receipts from other sources	7,858	7,425
Cash payments to suppliers for goods and services	(409,166)	(444,069)
Cash payments to employees for services	(218,299)	(205,037)
Net Cash Provided By Operating Activities	151,611	98,667
Cash Flows From Noncapital and Related Financing Activities		
Sales tax revenue for bonds	202,575	174,866
Net Cash Provided By Noncapital and Related Financing Activities	202,575	174,866
Cash Flows From Capital and Related Financing Activities		
Fixed asset additions	(3,522)	(36,625)
Loan proceeds	-	36,741
Principal paid on long-term debt	(156,404)	(145,237)
Interest paid on long-term debt	(113,597)	(116,731)
Net Cash Used By Capital and Related Financing Activities	(273,523)	(261,852)
Cash Flows From Investing Activities		
Net investment activity	16,281	(1,194)
Interest income, less deferred portion	2,922	2,167
Net Cash Provided By Investing Activities	19,203	973
Net Increase In Cash, Cash Equivalents and Restricted Cash	99,866	12,654
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	173,380	160,726
Cash, Cash Equivalents and Restricted Cash at End of Year	\$ 273,246	\$ 173,380
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 132,184	\$ 61,123
Restricted checking accounts	141,062	112,257
Total Cash, Cash Equivalents and Restricted Cash	\$ 273,246	\$ 173,380
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Net loss from operations	\$ (34,079)	\$ (67,706)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	180,350	181,011
(Increase) decrease in:		
Accounts receivable	6,433	(739)
Prepaid insurance	(110)	(181)
Increase (decrease) in:		
Accounts payable	(5,001)	(12,436)
Sales tax payable	-	(4,393)
Customer deposits	4,018	3,111
Net Cash Provided By Operating Activities	\$ 151,611	\$ 98,667

See accompanying notes to financial statements.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies

a. Nature of Business

The City of Mansfield, Arkansas Water 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.

b. 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.

c. Financial Reporting

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

d. Income Taxes

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

e. 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.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

f. 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 \$25 and \$1,298 on December 31, 2020 and 2019, respectively.

g. 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.

h. 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:

	<u>Life</u>
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.

i. 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.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

j. 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.

k. 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.

l. 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.

m. 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.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

n. 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.

o. 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.

p. 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 DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019. The bank balances and carrying amount of the Department's deposits held were as follows:

Description	At December 31, 2020		At December 31, 2019	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 298,571	\$ 273,146	\$ 198,044	\$ 173,280
Cash on hand		100		100
Total	\$ 298,571	\$ 273,246	\$ 198,044	\$ 173,380

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

As Of December 31,	2020	2019
Cash and cash equivalents	\$ 132,184	\$ 61,123
Restricted cash and cash equivalents	141,062	112,257
Total	\$ 273,246	\$ 173,380

3. Restricted Cash and Investments

As of December 31,	2020	2019
Restricted checking accounts:		
Customer meter deposit fund	\$ 70,212	\$ 66,624
Debt service depreciation reserve fund	49,171	32,755
Debt service reserve fund	21,679	12,878
Total restricted savings	\$ 141,062	\$ 112,257

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

3. Restricted Cash and Investments (continued)

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

As Of December 31,	2020	2019
Bond fund		
Bank OZK Money Market	\$ 16,522	\$ 31,452
Fidelity Investments Money Market	1,912	1,848
Mansfield, AR Wtr/Swr Rev Bond	1	1
Debt service reserve		
Bank OZK Money Market	30	464
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	\$ 205,724	\$ 222,005

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 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 District of Columbia.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

4. Investments (continued)

Investments consist of accounts established to administer the scheduled payments of principal and interest on the outstanding bonds as they become due and 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, 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
As Of December 31, 2019	Cost	FMV
Bond fund		
Bank OZK Money Market	\$ 31,452	\$ 31,452
Fidelity Investments Money Market	1,848	1,848
Mansfield, AR Wtr/Swr Rev Bond	1	1
Debt service reserve		
Bank OZK Money Market	464	464
Korea Development BK Commercial Paper	174,000	174,000
Fidelity Investments Money Market	14,240	14,240
Total restricted investments	\$ 222,005	\$ 222,005

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.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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.

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, 2020.

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

	Level 1	Level 2	Level 3	Total
Bank OZK				
Institutional Money Market	\$ 16,552	\$ -	\$ -	16,552
2.50% US Treasury Note	173,019			
Regions Bank				
Fidelity Investments Money Market	16,152			16,152
Mansfield, AR Wtr/Swr Rev Bond	1			1
Total	\$ 205,724	\$ -	\$ -	32,705

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

6. Capital Assets

Activity of capital assets consists of the following:

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

As Of	January 1, 2019	Additions & Contributions	Retirements	December 31, 2019
Land	\$ 47,602	\$ -	\$ -	\$ 47,602
Buildings and improvements	118,810	-	-	118,810
Water system	7,058,541	36,625	-	7,095,166
Machinery and equipment	205,472	-	-	205,472
Office equipment	15,512	-	-	15,512
Transportation equipment	75,414	-	-	75,414
Total	\$ 7,521,351	\$ 36,625	\$ -	\$ 7,557,976

7. Long-Term Debt

Long-term debt consists of:

As Of December 31,	2020	2019
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.	\$ 1,605,000	\$ 1,720,000
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.	86,992	96,979

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

7. Long-Term Debt (continued)

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.

476,955 487,078

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.

684,302 698,758

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.

27,806 34,644

Total	2,881,055	3,037,459
Less current portion	153,171	156,345
Long-Term Debt	2,727,884	2,881,114
Less unamortized discount on bonds	35,891	38,968
Long-term debt, net	\$ 2,691,993	\$ 2,842,146

Principal is scheduled to mature as follows:

December 31,	Principal	Interest	Total
2021	\$ 153,171	\$ 109,116	\$ 262,287
2022	160,073	104,189	264,262
2023	162,059	98,838	260,897
2024	166,292	96,071	262,363
2025	167,672	87,545	255,217
2026-2030	900,933	342,202	1,243,135
2031-2035	530,245	174,315	704,560
2036-2040	258,312	106,849	365,161
2041-2045	317,396	47,341	364,737
2046-2050	64,902	1,339	66,241
Total	\$ 2,881,055	\$ 1,167,805	\$ 4,048,860

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

7. Long-Term Debt (continued)

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

As Of	January 1, 2020	Additions & Contributions	Retirements	December 31, 2020
2012 Series Refunding Bonds	\$ 1,720,000	\$ -	\$ 115,000	\$ 1,605,000
ANRC 1995A Bonds	96,979	-	9,987	86,992
Rural Development 92-06	487,078	-	10,123	476,955
Rural Development 92-08	698,758	-	14,456	684,302
N/P Chambers Bank	34,644	-	6,838	27,806
Total	\$ 3,037,459	\$ -	\$ 156,404	\$ 2,881,055

As Of	January 1, 2019	Additions & Contributions	Retirements	December 31, 2019
2012 Series Refunding Bonds	\$ 1,830,000	\$ -	\$ 110,000	\$ 1,720,000
ANRC 1995A Bonds	106,531	-	9,552	96,979
Rural Development 92-06	496,792	-	9,714	487,078
Rural Development 92-08	712,632	-	13,874	698,758
N/P Chambers Bank	-	36,741	2,097	34,644
Total	\$ 3,145,955	\$ 36,741	\$ 145,237	\$ 3,037,459

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.

8. Bond Issue Discount

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 which is twenty years. Amortization of the bond discount for both of the years ended December 31, 2020 and 2019 was \$3,076. These amounts were charged as a component of interest expense.

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

9. Debt Service Reserve

The Rural Development Loan resolution specified for loans 92-06 and 92-08 with balances of \$476,955 and \$684,302 have a minimum reserve account of \$30,024 and \$43,008 respectively at December 31, 2020.

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.

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 year ended December 31, 2020 and 2019, the Department had not 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 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 District 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.

12. Sales Tax Revenue

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

Year Ending December 31,	
2020	\$ 202,575
2019	174,866
2018	176,624
2017	158,933
2016	145,017
Total	\$ 858,015

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

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. COVID-19

On March 11, 2020, the World Health Organization categorized Coronavirus Disease 2019 (COVID-19) as a pandemic. The spread of COVID-19 continues to cause global economic uncertainty as of the date of this report. The impact on the Department may be a decrease in revenues due to an inability of customers to pay utility bills caused by increased unemployment levels, however, there has not been any significant decrease to date. The Department is closely monitoring its operations, liquidity, and capital resources to minimize the current and future impact of this unprecedented situation. However, the full financial impact of the pandemic cannot reasonably be estimated at this time.

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, 2020 through April 13, 2021, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

CITY OF MANSFIELD, ARKANSAS WATER DEPARTMENT

SCHEDULE OF BONDS OUTSTANDING

DECEMBER 31, 2020

Year	Principal	Interest Rate	Interest June 1,	Interest December 1,	Total
2021	\$ 110,000	2.750	\$ 28,355	\$ 28,355	\$ 166,710
2022	115,000	2.900	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
	\$ 1,605,000		\$ 208,083	\$ 208,087	\$ 2,021,170

See independent auditors' report.

ADDITIONAL REQUIRED REPORT



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

To the Honorable Mayor and City Council
City of Mansfield, Arkansas Water 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 Department (the Department), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Department's financial statements, and have issued our report thereon dated April 13, 2021.

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.

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Our consideration of internal control over financial reporting 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
April 13, 2021