



CITY OF BATESVILLE, ARKANSAS

December 31, 2020

**Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



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Independent Auditor's Report

Honorable Mayor and City Council
City of Batesville, Arkansas
Batesville, Arkansas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Arkansas as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Batesville, Arkansas's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Arkansas as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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 Batesville, Arkansas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The City of Batesville, Arkansas's management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 Batesville, Arkansas's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known 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 GAAS 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 GAAS, 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 Batesville, Arkansas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Batesville, Arkansas's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

GAAP require the management's discussion and analysis, budgetary, pension and other postemployment benefits information on pages 4 through 11 and 73 through 86 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Batesville, Arkansas's basic financial statements. The selected combining major and nonmajor fund financial statements and schedule of bonds outstanding are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The selected combining major and nonmajor fund financial statements and schedule of bonds outstanding are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, based on our audit, the procedures performed as described above, the selected combining major and nonmajor fund financial statements and schedule of bonds outstanding are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2023 on our consideration of the City of Batesville, Arkansas'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Batesville, Arkansas'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 City of Batesville, Arkansas's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
March 13, 2023

Management's Discussion and Analysis**December 31, 2020**

As management of the City of Batesville (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2020. This information contained in the MD&A should be considered in conjunction with the information contained in the Financial Statements and Supplementary Information.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, law enforcement, public safety, highways and streets, sanitation, recreation and culture, cemetery, and interest on long-term activities. The business-type activities of the City include utilities which consist of the water and sewer services provided.

The government-wide financial statements include not only the City itself (known as the *primary government*) but also the Batesville Regional Airport (the "Airport"), a legally separate *component unit* for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself. Separate financial statements are issued for the Airport. This report may be obtained by contacting the following office:

Batesville Regional Airport
1126 Batesville Blvd.
Batesville, Arkansas 72501

The government-wide financial statements can be found on pages 12 and 13 of this report.

Management's Discussion and Analysis (cont.)**December 31, 2020****Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, Street Fund, 2012 Parks and Recreation Fund, and 2012 Operations and Maintenance Fund, all of which are considered to be major funds as defined by generally accepted accounting principles. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and Street Fund. A budgetary comparison statement has been provided for the General Fund and Street Fund to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 14 and 15 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Management's Discussion and Analysis (cont.)**December 31, 2020**

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utilities fund, which is considered to be a major fund.

The basic proprietary fund financial statements can be found on pages 17 through 19 of this report.

Fiduciary Funds

The City is the fiduciary for the Firemen's Pension and Relief Fund and the Cemetery Trust Fund. The financial information from these funds is excluded from the government-wide statements because the City cannot use these assets to finance operations. A separate statement of fiduciary net position and statement of changes in fiduciary net position are provided. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20 and 21 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 72 of this report.

Required and Other Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees and budget to actual comparisons for the General Fund and Street Fund. Required supplementary information can be found on pages 73 through 86 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements can be found on pages 87 through 89 of this report. A schedule of bonds outstanding can be found on page 90.

GOVERNMENT-WIDE ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$98,278,144 at the close of the most recent fiscal year.

By far the largest portion of the City's net position is its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment); less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending.

Management's Discussion and Analysis (cont.)

December 31, 2020

A condensed version of the *Statement of Net Position* at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Cash and investments	\$ 39,215,564	\$ 44,243,402
Other assets	4,673,635	4,619,794
Capital assets	<u>99,131,905</u>	<u>101,572,180</u>
Total assets	<u>143,021,104</u>	<u>150,435,376</u>
Deferred outflows of resources	<u>2,462,559</u>	<u>2,971,003</u>
Current liabilities	4,535,773	5,348,914
Noncurrent liabilities	<u>41,678,809</u>	<u>54,463,376</u>
Total liabilities	<u>46,214,582</u>	<u>59,812,290</u>
Deferred inflows of resources	<u>990,937</u>	<u>902,402</u>
Net position		
Net investment in capital assets	67,912,537	56,598,445
Restricted - expendable	13,735,809	20,915,417
Unrestricted	<u>16,629,798</u>	<u>15,177,825</u>
Total net position	<u>\$ 98,278,144</u>	<u>\$ 92,691,687</u>

Statement of Activities

The combined statement shows an approximately \$5.6 million increase. The governmental activities had an increase of \$274,000 and the business-type activities increased by approximately \$5.3 million. The key element for the increase in governmental funds is the decrease in operating purchases. The increase in the business-type activities is an increase in charges for services of approximately 3% and the collection of a 1¢ sales tax which funds the Wastewater Treatment Plant (“WWTP”) expansion project.

Management's Discussion and Analysis (cont.)

December 31, 2020

A condensed version of the *Statement of Activities* for the years ended December 31, 2020 and 2019 is as follows:

Functions/Programs	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues						
Program revenues						
Charges for services	\$ 2,362,055	\$ 3,174,293	\$ 10,829,412	\$ 11,016,947	\$ 13,191,467	\$ 14,191,240
Grants and contributions	634,858	465,137	-	-	634,858	465,137
General revenues						
Taxes	8,337,996	7,980,057	4,326,516	4,014,309	12,664,512	11,994,366
Investment	33,131	53,850	448,815	894,336	481,946	948,186
Intergovernmental	1,024,667	1,006,041	-	-	1,024,667	1,006,041
Other	847,926	567,078	(246,990)	(155,488)	600,936	411,590
Total revenues	<u>13,240,633</u>	<u>13,246,456</u>	<u>15,357,753</u>	<u>15,770,104</u>	<u>28,598,386</u>	<u>29,016,560</u>
Expenses						
General government	2,650,674	2,333,138	-	-	2,650,674	2,333,138
Highways and streets	1,377,197	1,432,364	-	-	1,377,197	1,432,364
Public safety	2,555,616	4,778,597	-	-	2,555,616	4,778,597
Sanitation	1,190,944	1,554,685	-	-	1,190,944	1,554,685
Recreation and culture	3,809,491	3,348,099	-	-	3,809,491	3,348,099
Cemetery	638,546	555,360	-	-	638,546	555,360
Interest on long-term debt	740,455	791,368	-	-	740,455	791,368
Issuance costs and fees - long-term debt	3,450	2,501	-	-	3,450	2,501
Utilities	-	-	10,045,556	10,240,536	10,045,556	10,240,536
Total expenses	<u>12,966,373</u>	<u>14,796,112</u>	<u>10,045,556</u>	<u>10,240,536</u>	<u>23,011,929</u>	<u>25,036,648</u>
Changes in net position	274,260	(1,549,656)	5,312,197	5,529,568	5,586,457	3,979,912
Net position - beginning of year	<u>12,200,167</u>	<u>13,749,823</u>	<u>80,491,520</u>	<u>74,961,952</u>	<u>92,691,687</u>	<u>88,711,775</u>
Net position - end of year	<u>\$ 12,474,427</u>	<u>\$ 12,200,167</u>	<u>\$ 85,803,717</u>	<u>\$ 80,491,520</u>	<u>\$ 98,278,144</u>	<u>\$ 92,691,687</u>

Management's Discussion and Analysis (cont.)**December 31, 2020****FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS****Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$475,445. This is an increase of \$407,110 from 2019. The primary reason for the increase was due to an increase in other financing sources related to the acquisition of capital leases and sale of capital assets.

Street Fund

The City's Street Fund had a total fund balance of \$974,083, which is an increase of \$167,826 from 2019. The increase is due primarily to a decrease in expenditures.

2012 Parks and Recreation Fund

The 2012 Parks and Recreation Fund is a fund created by the 2012 ½¢ sales tax passed by the citizens of Batesville on March 13, 2012. The fund balance of \$1,712,577 is from the 2012 bond issued for the construction of new ball fields, Community Center, and Aquatics Park. The fund had a slight increase of approximately \$58,000 attributed to sales tax collection.

2012 Operations and Maintenance Fund

The 2012 Operations and Maintenance Fund is a fund created in the 2012 ½¢ sales tax passed by the citizens of Batesville on March 13, 2012. The fund is for the operations and maintenance of the Parks and Recreation, Public Safety, and Street Departments. The fund had a balance of \$456,039 at the end of 2020, which is an increase of approximately \$129,000 from the prior year. This change is due to a decrease in expenses.

Proprietary Funds

The City's proprietary funds had an overall increase in net position of approximately \$5.3 million due primarily to an increase in charges for services of approximately 3% and an increase in the collection of a 1¢ sales tax which funds the WWTP expansion.

Management's Discussion and Analysis (cont.)**December 31, 2020****General Fund Budgetary Highlights***Original Budget as Compared to the Final Budget*

During the 2020 fiscal year, the original budget of the General Fund was not amended.

Actual Results as Compared to the Final Budget

Variances between the actual expenditures for the General Fund were fairly insignificant. The final budget projected a decrease of \$247,729 in the General Fund balance. Actual expenditures were \$764,261 lower than budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

As of December 31, 2020, the City's investment in capital assets for its governmental, business-type activities, and discretely presented component unit was \$105,346,333. This reflects an approximate \$2,689,700 decrease from 2019, which is primarily due to the net of current year depreciation. The investment in capital assets includes land, building, improvements, machinery and equipment, and streets.

Long-Term Debt

Long-term debt decreased approximately \$13.7 million from 2019. Long-term debt consists of the 2012 Series Bond, the revolving loan fund for the WWTP, capital leases, and notes payable. Additions for the year include approximately \$483,000 in new capital leases. Total payments were approximately \$14.2 million.

The revolving loan fund for the WWTP is financed from the WWTP 1¢ sales tax. Outstanding balance on the revolving loan fund was \$12,102,014 as of December 31, 2020. The 2012 Series Bond that was used to fund the construction of new ball fields, Community Center and Aquatics Park are financed from the 1¢ Parks and Recreation sales tax. Outstanding balance on these bonds was \$18,024,492 as of December 31, 2020.

State statutes limit the amount of general obligation debt a governmental entity may issue to 20% of its total assessed valuation for long-term debt and 5% for short-term debt. The City's current debt limit for both is \$48,610,284, with short-term debt limited to \$9,722,057 of the total allowed.

Additional information regarding long-term debt can be found on pages 38 through 44 of this report.

Management's Discussion and Analysis (cont.)**December 31, 2020****ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The unemployment rate as of December 31, 2020 for Independence County (of which Batesville is a part) was 5.8%. This is slightly below the state's average unemployment rate of 6.1%.
- The City's population as of the 2020 census is 11,191, which is an increase of 943. Impact and capacity fees and a slight increase in utility rates are in place to meet the financial demands caused by this population increase.
- The citizens of Batesville approved a 1¢ sales tax on March 13, 2012 for the City. One-half of the sales tax is dedicated to a \$25.9 million dollar bond issue to improve the City's Parks and Recreation. The funds were used to construct a new community center, aquatics center, and new and improved ball fields. The ball fields were completed in 2014 and the Community Center and Aquatics Park was completed in June 2017. When the bond issue is paid in full, the tax will be discontinued. The other one-half sales tax is permanent and is to be used for general purposes within the Parks and Recreation, Public Safety, and Street Departments.
- The citizens of Batesville, in November 2018, approved a millage increase for the Batesville Firemen's Pension Plan from .4 Mills to 1.0 Mills which started being collected in 2019. The Batesville Firemen's Pension Plan pays monthly retirement benefits to 16 part-time and full-time retired firefighters with no additional eligible firefighters. The fund has been actuarially unsound for several years; however, the increased millage is anticipated to completely fund the Firemen's Fund.

These factors were considered in preparing the City's budget for 2020. The General, Street, and Utility Funds budgets increased slightly for 2020.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to; Denise Johnston, City Clerk; 500 E. Main Street; Batesville, Arkansas 72501.

Statement of Net Position

December 31, 2020

<u>Assets and Deferred Outflows of Resources</u>	Governmental Activities	Business-type Activities	Total	Component Unit
Cash and cash equivalents	\$ 562,725	\$ 13,165,561	\$ 13,728,286	\$ 147,884
Certificates of deposit	543,174	-	543,174	-
Accounts receivable, net	1,975,642	1,382,847	3,358,489	103,093
Inventories	-	400,370	400,370	31,612
Prepaid expenses	31,252	24,512	55,764	-
Other assets	-	-	-	420
Restricted assets				
Cash and certificates of deposit	2,887,890	13,929,878	16,817,768	-
Investments	1,527,101	6,599,235	8,126,336	-
Accounts receivable, net	488,059	370,953	859,012	-
Capital assets				
Nondepreciable	2,553,870	719,572	3,273,442	464,608
Depreciable, net of accumulated depreciation	<u>32,177,373</u>	<u>63,681,090</u>	<u>95,858,463</u>	<u>5,749,820</u>
Total assets	<u>42,747,086</u>	<u>100,274,018</u>	<u>143,021,104</u>	<u>6,497,437</u>
Deferred outflows of resources				
Pensions	1,771,813	523,606	2,295,419	-
Other postemployment benefits ("OPEB")	<u>167,140</u>	<u>-</u>	<u>167,140</u>	<u>-</u>
Total deferred outflows of resources	<u>1,938,953</u>	<u>523,606</u>	<u>2,462,559</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 44,686,039</u>	<u>\$ 100,797,624</u>	<u>\$ 145,483,663</u>	<u>\$ 6,497,437</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>				
Liabilities				
Accounts payable	\$ 430,229	\$ 366,370	\$ 796,599	\$ 28,531
Accrued liabilities	126,138	172,702	298,840	7,153
Due to (from) other funds	1,477,763	(1,477,763)	-	-
Customer deposits	-	443,222	443,222	-
Accrued interest payable	304,980	92,346	397,326	-
Noncurrent liabilities				
Due within one year				
Bonds payable - current maturities	865,000	1,003,883	1,868,883	-
Notes payable - current maturities	-	77,856	77,856	-
Capital leases - current maturities	168,675	291,716	460,391	-
Compensated absences	96,748	95,908	192,656	-
Due in more than one year				
Bonds payable	17,159,492	11,098,131	28,257,623	-
Capital leases	554,615	-	554,615	-
Compensated absences	105,584	93,964	199,548	-
Net pension liabilities	9,136,485	2,635,974	11,772,459	-
OPEB	894,564	-	894,564	-
Total liabilities	<u>31,320,273</u>	<u>14,894,309</u>	<u>46,214,582</u>	<u>35,684</u>
Deferred inflows of resources				
Pensions	830,464	99,598	930,062	-
OPEB	<u>60,875</u>	<u>-</u>	<u>60,875</u>	<u>-</u>
Total deferred inflows of resources	<u>891,339</u>	<u>99,598</u>	<u>990,937</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>32,211,612</u>	<u>14,993,907</u>	<u>47,205,519</u>	<u>35,684</u>
Net position				
Net investment in capital assets	15,983,461	51,929,076	67,912,537	6,214,428
Restricted for				
Capital projects	1,220,006	8,249,502	9,469,508	-
Debt service	1,222,121	1,104,312	2,326,433	-
Operations and maintenance	613,751	-	613,751	-
Prepaid expenses	31,252	24,512	55,764	-
Other	1,270,353	-	1,270,353	-
Unrestricted	<u>(7,866,517)</u>	<u>24,496,315</u>	<u>16,629,798</u>	<u>247,325</u>
Total net position	<u>12,474,427</u>	<u>85,803,717</u>	<u>98,278,144</u>	<u>6,461,753</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 44,686,039</u>	<u>\$ 100,797,624</u>	<u>\$ 145,483,663</u>	<u>\$ 6,497,437</u>

The accompanying notes are an integral part of these financial statements.

Statement of Activities

For the Year Ended December 31, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government							
Governmental activities							
General government	\$ 2,650,674	\$ -	\$ 634,858	\$ (2,015,816)	\$ -	\$ (2,015,816)	\$ -
Highways and streets	1,377,197	-	-	(1,377,197)	-	(1,377,197)	-
Public safety	2,555,616	94,511	-	(2,461,105)	-	(2,461,105)	-
Sanitation	1,190,944	1,476,847	-	285,903	-	285,903	-
Recreation and culture	3,809,491	790,697	-	(3,018,794)	-	(3,018,794)	-
Cemetery	638,546	-	-	(638,546)	-	(638,546)	-
Interest on long-term debt	740,455	-	-	(740,455)	-	(740,455)	-
Issuance costs and fees - long-term debt	3,450	-	-	(3,450)	-	(3,450)	-
Total governmental activities	12,966,373	2,362,055	634,858	(9,969,460)	-	(9,969,460)	-
Business-type activities							
Utilities	10,045,556	10,829,412	-	-	783,856	783,856	-
Total primary government	\$ 23,011,929	\$ 13,191,467	\$ 634,858	(9,969,460)	783,856	(9,185,604)	-
Component unit							
Batesville Regional Airport	\$ -	\$ -	\$ -	-	-	-	(963,136)
General revenues and transfers							
Taxes							
Sales and use taxes				6,426,915	4,326,516	10,753,431	-
Property taxes				1,138,288	-	1,138,288	-
Franchise and public service taxes				772,793	-	772,793	-
Intergovernmental				1,024,667	-	1,024,667	236,643
Investment income				33,131	448,815	481,946	11
Gain (loss) on disposal of assets				341,333	(10,990)	330,343	-
Miscellaneous				270,593	-	270,593	538,844
Transfers, net				236,000	(236,000)	-	83,600
Total general revenues and transfers				10,243,720	4,528,341	14,772,061	859,098
Changes in net position				274,260	5,312,197	5,586,457	(104,038)
Net position - beginning of year				12,200,167	80,491,520	92,691,687	6,565,791
Net position - end of year				\$ 12,474,427	\$ 85,803,717	\$ 98,278,144	\$ 6,461,753

The accompanying notes are an integral part of these financial statements.

Balance Sheet – Governmental Funds

December 31, 2020

<u>Assets</u>	General Fund (Major Fund)	Street Fund (Major Fund)	2012 Parks and Recreation Fund (Major Fund)	2012 Operations and Maintenance Fund (Major Fund)	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 562,725	\$ -	\$ -	\$ -	\$ -	\$ 562,725
Certificates of deposit	543,174	-	-	-	-	543,174
Taxes receivable (net of allowance for doubtful accounts of \$79,892)	1,372,535	314,125	-	-	-	1,686,660
Other receivables	288,982	-	-	-	-	288,982
Prepaid expense	26,216	5,036	-	-	-	31,252
Restricted						
Cash and cash equivalents	151,646	790,953	-	747,489	1,084,782	2,774,870
Certificates of deposit	-	113,020	-	-	-	113,020
Investments	-	-	1,527,101	-	-	1,527,101
Taxes receivable	-	-	185,476	185,476	7,742	378,694
Other receivables	15,708	81,787	-	-	11,870	109,365
Total assets	<u>\$ 2,960,986</u>	<u>\$ 1,304,921</u>	<u>\$ 1,712,577</u>	<u>\$ 932,965</u>	<u>\$ 1,104,394</u>	<u>\$ 8,015,843</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 260,904	\$ 34,192	\$ -	\$ 133,738	\$ 1,395	\$ 430,229
Accrued liabilities	138,538	5,848	-	775	-	145,161
Due to other funds	1,135,350	-	-	342,413	-	1,477,763
Total liabilities	<u>1,534,792</u>	<u>40,040</u>	<u>-</u>	<u>476,926</u>	<u>1,395</u>	<u>2,053,153</u>
Deferred inflows of resources						
Unavailable revenue - property taxes	950,749	290,798	-	-	-	1,241,547
Fund balances						
Nonspendable	26,216	5,036	-	-	-	31,252
Restricted	171,025	945,720	1,527,101	270,563	1,102,999	4,017,408
Committed	241,691	23,327	185,476	185,476	-	635,970
Unassigned	36,513	-	-	-	-	36,513
Total fund balances	<u>475,445</u>	<u>974,083</u>	<u>1,712,577</u>	<u>456,039</u>	<u>1,102,999</u>	<u>4,721,143</u>
Total liabilities and fund balances	<u>\$ 2,960,986</u>	<u>\$ 1,304,921</u>	<u>\$ 1,712,577</u>	<u>\$ 932,965</u>	<u>\$ 1,104,394</u>	<u>\$ 8,015,843</u>
Amounts reported for governmental activities in the statement of activities are different because:						
Total fund balance - governmental funds						\$ 4,721,143
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (net of accumulated depreciation of \$117,188,996).						34,731,243
Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end and are not considered available. On the accrual basis, those revenues are recognized regardless of when they are collected.						1,241,547
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:						
Bonds, capital leases, and notes payable						(18,747,782)
Accrued interest payable						(304,980)
Accrued compensated absences						(183,309)
OPEB liability						(894,564)
Net pension liabilities						<u>(8,088,871)</u>
Net position of governmental activities						<u>\$ 12,474,427</u>

The accompanying notes are an integral part of these financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds**

For the Year Ended December 31, 2020

	General Fund (Major Fund)	Street Fund (Major Fund)	2012 Parks and Recreation Fund (Major Fund)	2012 Operations and Maintenance Fund (Major Fund)	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 3,506,115	\$ 251,765	\$ 2,163,258	\$ 2,163,258	\$ 217,496	\$ 8,301,892
Intergovernmental	272,031	771,300	-	-	87,129	1,130,460
Grants	529,065	-	-	-	-	529,065
Charges for services	2,189,769	-	-	-	77,775	2,267,544
Fines and forfeitures	4,422	-	-	-	23,373	27,795
Licenses and permits	66,716	-	-	-	-	66,716
Investment income	6,578	6,984	5,396	4,950	9,223	33,131
Miscellaneous	250,716	1,731	-	146	18,000	270,593
Total revenues	<u>6,825,412</u>	<u>1,031,780</u>	<u>2,168,654</u>	<u>2,168,354</u>	<u>432,996</u>	<u>12,627,196</u>
Expenditures						
Current						
General government	1,268,734	-	-	-	-	1,268,734
Highways and streets	-	863,954	-	-	-	863,954
Public safety	2,100,424	-	-	949,787	138,283	3,188,494
Sanitation	1,131,797	-	-	-	-	1,131,797
Recreation and culture	1,471,592	-	-	717,818	114,897	2,304,307
Cemetery	600,369	-	-	-	-	600,369
Debt service						
Principal	168,849	-	1,375,000	-	-	1,543,849
Interest and other charges	21,199	-	736,090	-	-	757,289
Capital outlay	573,650	-	-	296,457	162,000	1,032,107
Total expenditures	<u>7,336,614</u>	<u>863,954</u>	<u>2,111,090</u>	<u>1,964,062</u>	<u>415,180</u>	<u>12,690,900</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(511,202)</u>	<u>167,826</u>	<u>57,564</u>	<u>204,292</u>	<u>17,816</u>	<u>(63,704)</u>
Other financing sources						
Proceeds from sale of capital assets	198,985	-	-	-	-	198,985
Capital leases	483,327	-	-	-	-	483,327
Transfers in (out)	236,000	-	-	(75,000)	75,000	236,000
Total other financing sources	<u>918,312</u>	<u>-</u>	<u>-</u>	<u>(75,000)</u>	<u>75,000</u>	<u>918,312</u>
Net changes in fund balances	407,110	167,826	57,564	129,292	92,816	854,608
Fund balances - beginning of year	<u>68,335</u>	<u>806,257</u>	<u>1,655,013</u>	<u>326,747</u>	<u>1,010,183</u>	<u>3,866,535</u>
Fund balances - end of year	<u>\$ 475,445</u>	<u>\$ 974,083</u>	<u>\$ 1,712,577</u>	<u>\$ 456,039</u>	<u>\$ 1,102,999</u>	<u>\$ 4,721,143</u>

The accompanying notes are an integral part of these financial statements.

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities**

For the Year Ended December 31, 2020

Reconciliation of the changes in fund balances - total governmental funds to the changes in net position of governmental activities:

Net changes in fund balances - total governmental funds \$ 854,608

Amounts reported for governmental activities in the statement of activities are different because:

Government funds report capital outlays as expenditures. However, for government-wide statements the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. (2,455,526)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to increase net position.

Current year capital assets purchased/transferred 1,032,107
Basis of capital assets sold (340,979)

Revenues that do not provide current financial resources, such as ad valorem taxes, are not reported as revenues for the funds, but are reported as revenues in the statement of activities. This is the change in the amount of deferred ad valorem taxes reported in the governmental fund statements. 36,104

Expenses that do not require current financial resources, such as compensated absences, OPEB liabilities, and accrued interest payable, are not reported as expenditures in the funds, but are reported as expenses in the statement of activities.

Increase in accrued long-term compensated absences (43,631)
Increase in net pension obligation and related deferred outflows of resources and deferred inflows of resources (319,491)
Increase in OPEB liability and related deferred outflows of resources and deferred inflows of resources (46,165)
Decrease in accrued interest payable and accrued premium on bonds 13,384

The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs and other similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal 1,543,849

Changes in net position of governmental activities \$ 274,260

The accompanying notes are an integral part of these financial statements.

Statement of Fund Net Position – Proprietary Funds

December 31, 2020

	Enterprise Fund
<u>Assets and Deferred Outflows of Resources</u>	<u>Utilities (Major Fund)</u>
Current assets	
Cash and cash equivalents	\$ 13,165,561
Accounts receivable, net	1,382,847
Due from other funds	1,477,763
Inventories	400,370
Prepaid expenses	24,512
Total current assets	<u>16,451,053</u>
Noncurrent assets	
Restricted	
Cash and cash equivalents	13,325,705
Certificates of deposit	604,173
Investments	6,599,235
Sales tax receivable	370,953
Capital assets	
Nondepreciable	719,572
Depreciable, net of accumulated depreciation	63,681,090
Total noncurrent assets	<u>85,300,728</u>
Deferred outflows of resources	
Pensions	<u>523,606</u>
Total assets and deferred outflows of resources	<u>\$ 102,275,387</u>
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Current liabilities	
Accounts payable	\$ 366,370
Accrued liabilities	172,702
Customer deposits	443,222
Accrued interest payable	92,346
Current portion of compensated absences	95,908
Current portion of notes payable, bonds payable, and capital leases	1,373,455
Total current liabilities	<u>2,544,003</u>
Noncurrent liabilities	
Notes payable and bonds payable, less current portion	11,098,131
Compensated absences, less current portion	93,964
Net pension liabilities	2,635,974
Total noncurrent liabilities	<u>13,828,069</u>
Deferred inflows of resources	
Pensions	<u>99,598</u>
Total liabilities and deferred inflows of resources	<u>16,471,670</u>
Net position	
Net investment in capital assets	51,929,076
Restricted for	
Capital projects	8,249,502
Debt service	1,104,312
Prepaid expenses	24,512
Unrestricted	24,496,315
Total net position	<u>85,803,717</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 102,275,387</u>

The accompanying notes are an integral part of these financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Net Position –
Proprietary Funds**

For the Year Ended December 31, 2020

	Enterprise Fund
	<u>Utilities (Major Fund)</u>
Operating revenues	
Charges for services	
Water and sewer revenue	\$ 10,529,405
Penalties and surcharge	89,011
Servicing fees	132,000
Connects/disconnects	46,724
Miscellaneous	<u>32,272</u>
Total operating revenues	<u>10,829,412</u>
Operating expenses	
Personnel costs	2,908,645
City administrative cost	79,868
Chemicals	221,160
Office supplies and expenses	55,184
Repairs and maintenance	789,353
Telephone and utilities	851,900
Operating supplies	41,442
Machine and truck expense	86,575
Professional fees	118,681
Insurance	78,635
Rent	15,912
Contract laboratory	39,525
Uniforms	13,373
Miscellaneous and other	115,059
Process and plant water	284,453
Billing and meter reading expenses	51,493
State water service fee	34,171
Depreciation	3,906,515
Training	<u>2,495</u>
Total operating expenses	<u>9,694,439</u>
Net operating income	<u>1,134,973</u>
Nonoperating revenues (expense)	
Investment income	448,815
Sales tax revenue	4,326,516
Interest expense	(351,117)
Loss on disposal of assets	<u>(10,990)</u>
Total nonoperating revenues	<u>4,413,224</u>
Net income before grants, contributions, and transfers	5,548,197
Transfers to General Fund, net	<u>(236,000)</u>
Changes in net position	5,312,197
Net position - beginning of year	<u>80,491,520</u>
Net position - end of year	<u>\$ 85,803,717</u>

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows – Proprietary Funds

For the Year Ended December 31, 2020

	Enterprise Fund
	<u>Utilities (Major Fund)</u>
Cash flows from operating activities	
Cash received from customers	\$ 10,803,140
Cash received from other funds for services	14,726
Cash payments to suppliers for goods and services	(2,699,755)
Cash payments to employees for services	<u>(2,717,475)</u>
Net cash provided by operating activities	<u>5,400,636</u>
Cash flows from noncapital financing activities	
Transfers out	<u>(236,000)</u>
Net cash used by noncapital financing activities	<u>(236,000)</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(3,209,956)
Sales tax revenue	4,305,418
Principal paid on debt	(12,228,806)
Interest and fees paid on debt	<u>(474,653)</u>
Net cash used by capital and related financing activities	<u>(11,607,997)</u>
Cash flows from investing activities	
Interest on cash and certificates of deposit	448,815
Net change in restricted cash and certificates of deposit	639,668
Proceeds from sale of investments	16,613,300
Purchase of investments	(8,606,099)
Due to other funds	<u>(35,051)</u>
Net cash provided by investing activities	<u>9,060,633</u>
Net increase in cash and cash equivalents	2,617,272
Cash and cash equivalents - beginning of year	<u>10,548,289</u>
Cash and cash equivalents - end of year	<u>\$ 13,165,561</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,134,973
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	3,906,515
Changes in operating assets and liabilities	
Accounts receivable	(26,272)
Accounts payable and accrued liabilities	179,524
Pension liabilities, deferred inflows, and outflows	191,170
Customer deposits	<u>14,726</u>
Net cash provided by operating activities	<u>\$ 5,400,636</u>

The accompanying notes are an integral part of these financial statements.

Statement of Net Position – Fiduciary Funds

December 31, 2020

<u>Assets</u>	<u>Pension Trust Fund</u>	<u>Private-purpose Trust Fund</u>
	<u>Firemen's Pension and Relief Fund</u>	<u>Cemetery Trust Fund</u>
Cash	\$ 95,018	\$ 123,787
Certificates of deposit	-	15,299
Investments		
Corporate bonds	8,339	86,775
U.S. Government obligations	19,190	66,660
Municipal bonds	-	20,179
Common stock	-	36,939
Unit trusts	-	6,080
Mutual funds	249,689	591,450
Property taxes receivable, net	<u>207,043</u>	<u>-</u>
Total assets	<u>\$ 579,279</u>	<u>\$ 947,169</u>
<u>Liabilities and Net Position</u>		
Liabilities		
Other liabilities	<u>\$ 1,670</u>	<u>\$ -</u>
Net position		
Net position restricted for pension	577,609	-
Held in trust for other purposes	<u>-</u>	<u>947,169</u>
Total net position	<u>577,609</u>	<u>947,169</u>
Total liabilities and net position	<u>\$ 579,279</u>	<u>\$ 947,169</u>

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Position – Fiduciary Funds

For the Year Ended December 31, 2020

	Pension Trust Fund	Private-purpose Trust Fund
	Firemen's Pension and <u>Relief Fund</u>	Cemetery Trust <u>Fund</u>
Additions		
Investment earnings		
Interest and dividends	\$ 13,880	\$ 70,807
Net increase in fair value of investments	<u>13,728</u>	<u>40,461</u>
Net investment earnings	<u>27,608</u>	<u>111,268</u>
Other additions		
Property taxes	193,201	-
Criminal justice fund revenue	109,110	-
Fees and other income	<u>(5,915)</u>	<u>8,649</u>
Total other additions	<u>296,396</u>	<u>8,649</u>
Total additions	<u>324,004</u>	<u>119,917</u>
Deductions		
Current		
Benefits	307,828	-
Administrative expenses	2,178	-
Miscellaneous	<u>-</u>	<u>49,499</u>
Total deductions	<u>310,006</u>	<u>49,499</u>
Changes in net position	13,998	70,418
Net position - beginning of year	<u>563,611</u>	<u>876,751</u>
Net position - end of year	<u>\$ 577,609</u>	<u>\$ 947,169</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

- a. **Reporting entity** – The City of Batesville, Arkansas (the “City”) was incorporated in 1848 and is a municipal corporation operating under the authority of Arkansas Statutes. The City operates under an elected mayor-council form of government and provides the following services as authorized by its charter: public safety (law enforcement, fire, and animal control), streets, public works, general administrative services, airport, cemetery, and parks and recreation.

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for states and local governments as defined by the Governmental Accounting Standards Board (“GASB”). GASB is the standard-setting body accepted in the United States for establishing governmental accounting and financial reporting principles.

These financial statements present the City (primary government) and its component units. The component units are legally separate entities but are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City. Those entities in which the nature and significance of their relationship with the City is such that exclusion from the City’s financial reporting entity would render the City’s financial statements incomplete or misleading, are also being included as part of the City’s reporting entity. These component units are further distinguished between blended component units, presented as part of the primary government, and discretely presented component units, presented separately.

Those entities that meet the above established criteria for inclusion, as well as meet either of the following criteria (1) provide services entirely or almost entirely for the City, or (2) whose board is substantially the same as the City’s board, are required to be included as part of the primary government’s financial statements through “blended” presentation. Those entities that meet the above established criteria for inclusion, but do not either (1) provide services entirely or almost entirely for the City, or (2) have the same or substantially the same board as the City, are required to be presented “discretely” or in a separate column as part of the City’s reporting entity, but not part of the primary government. Entities for which the City is accountable because it appoints a voting majority of the board but is not financially accountable are related organizations and would be disclosed in these notes. All entities that are not included as *blended component unit* or *discretely presented component unit* as noted below are excluded from the City’s financial reporting entity.

Blended Component Unit

The Batesville Waterworks and Batesville Sewer Improvement District (the “District”), in substance, is the same as the government, despite being legally separate from the government. Therefore, the District is reported as part of the primary government. The District’s governing body is substantially the same as the governing body of the City and serves all the citizens of the City. The rates for user charges and bond issuance authorizations are approved by the City Council and the legal liability for the general obligation portion of the District’s debt remains with the government. The District is reported as an enterprise fund. Separate financial statements are not issued for the District.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)*Discretely Presented Component Unit*

The Batesville Regional Airport (the “Airport”) is included in the City’s reporting entity because the City appoints the governing body. The Airport is reported as a discretely presented component unit since the governing body is not substantively the same as the governing body of the City and it provides services to the citizens of the City and the surrounding area as opposed to only the primary government. To emphasize that it is legally separate from the City, it is reported in a separate column in the financial statements. The rates for user charges, bond issuance authorizations, and various grants are approved by the City Council and the legal liability for the general obligation portion of the Airport’s debt remains with the government. The Airport is reported as an enterprise fund. Separate financial statements are issued for the Airport. This report may be obtained by contacting the following office:

Batesville Regional Airport
1126 Batesville Blvd.
Batesville, Arkansas 72501

- b. **Basis of presentation** – The City’s basic financial statements consist of government-wide statements, including a statement of net position, a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide financial statements – The government-wide financial statements report information on all nonfiduciary activities of the primary government and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City’s own programs. Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between governmental activities, which are generally financed through taxes, intergovernmental revenues and other nonexchange transactions, and business-type activities, which are financed in whole or part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

Fund financial statements – The City maintains fund accounting in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detailed level. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds, if any, are aggregated and reported as nonmajor funds.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)

Governmental funds – Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The following are the City’s governmental funds:

The **General Fund** is the City’s primary operating fund which accounts for all financial resources of the City, except those required to be accounted for in another fund.

The **Street Fund** is a special revenue fund which accounts for resources related to street, drainage, and traffic control operations.

The **2012 Parks and Recreation Fund** is a special revenue fund which accounts for resources related to construction of various parks and recreation facilities that were approved through the 2012 bond issue.

The **2012 Operations and Maintenance Fund** is a special revenue fund which accounts for resources related to the operation and maintenance of the street department, parks and recreation facilities, and public safety departments of the City.

Proprietary funds – Proprietary funds are used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise. The following are the City’s proprietary funds:

The **enterprise funds** are used to account for operations that are (a) 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 and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City’s major enterprise fund consists of the Utilities Fund, which consists of the water, wastewater, and utility capital funds.

Fiduciary funds – Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. The following are the City’s fiduciary funds:

The **pension trust fund** accounts for assets held in trust for the Firemen’s Pension and Relief Fund (“FPRF”). Plan trustees must act in accordance with the specific purposes and terms of these retirement plans.

The **private-purpose trust fund** accounts for activities that are not the City’s programs but are programs sponsored by private organizations or other governments. Although the City serves as fiscal agent, the funds received and held under these programs are not available to support the City’s activities and programs but are received and held for the benefit of individuals, private organizations, or other governments participating in the sponsored programs. The programs accounted for within this are expendable trust funds.

Notes to Financial Statements**December 31, 2020****1. Summary of Significant Accounting Policies (cont.)**

- c. **Measurement focus and basis of accounting** – The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, the presentation of expense versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

Government-wide, Proprietary, and Fiduciary Funds

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. In proprietary funds, operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes; city and county sales tax; grants and contributions. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period in which the taxes are levied. City and county sales taxes, franchise fees, licenses, permits, fines, and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arise and the use of resources is required or is first permitted. Grants and contributions are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

The pension trust fund recognizes employer and participant contributions in the period in which contributions are due and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Governmental Fund Financial Statements

Governmental fund financial statement reporting uses the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. Revenues are recognized when they are both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Major revenue sources include taxes, intergovernmental revenues, and investment income. Other revenues are recognized when cash is received. Expenditures are recorded when the related fund liability is incurred, except for general capital asset acquisitions, general obligation bond principal and interest, compensated absences, claims, and judgments, which are reported as expenditures in the year payment is due.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)

When both restricted and unrestricted resources are available for construction or debt service payments, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

- d. **Budgets and budgetary accounting** – Annual budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (“GAAP”). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recognized. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements. Budgets are used as a management control for all funds. All annual appropriations lapse at year-end.
- e. **Net position flow assumption** – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.
- f. **Fund balance flow assumptions** – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.
- g. **Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount 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.
- h. **Cash and cash equivalents** – Cash includes demand deposits, savings accounts, and cash on hand. For the purposes of the statement of cash flows of the proprietary funds, the City considers all highly liquid cash investments purchased with an original maturity of three months or less to be cash equivalents.

Notes to Financial Statements**December 31, 2020****1. Summary of Significant Accounting Policies (cont.)**

- i. **Investments and investment income** – Money market investments that mature within one year of the date of acquisition are recorded at amortized cost, which approximates fair value. All other investments are reported at their fair values based on quoted market prices in the accompanying statement of net position. Investment income includes dividends and interest income, realized gains and losses, and the net change for the year in the investments carried at fair value. Investment income is assigned to funds with which the related investment asset is associated. The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used to measure the fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are derived from or corroborated by observable market data for the asset or liability. Level 3 inputs are unobservable.
- j. **Accounts receivable** – Receivables consist primarily of property and other taxes and customer accounts receivable (billings for customer service charges including unbilled utility services).

Property and Other Taxes

Property and other taxes include amounts levied against all real, public utility, and tangible personal property located in the City. City property taxes are levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. Property taxes are attached as an enforceable lien on property as of the first Monday in January for assessments in that year. Taxes are due and payable on the third Monday of February in the following year and are considered delinquent after October 15 of that year. The county is the collecting agency for the levy and remits the collections to the City, net of a collection fee. As of December 31, 2020, the City had \$93,196 in allowance for doubtful accounts in respect to property and other taxes for current year assessed taxes. The appraised value of taxable property upon which the property tax is levied is determined by the county assessor. The county assessor estimates the full market value of the property and applies the statutory rate of 20% to arrive at the assessed value. Property taxes which remain delinquent for a period of three years are certified to the land commissioner where a lien is recorded and held on file. If property remains delinquent for a period of seven years, the property will be subsequently sold by the land commissioner. Proceeds from the sale are used to cover claims on the past due property taxes.

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2020, property taxes receivable and related deferred revenues of \$1,241,547 have been recorded in the governmental funds. In the government-wide and fiduciary funds statements of net position, delinquent taxes are recorded net of amounts considered uncollectible.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)*Utilities*

Utilities consist of credit extended to users in the normal course of business. The City uses the allowance method to account for uncollectible accounts receivable. In circumstances where management is aware of a specific user's inability to meet financial obligations, a specific reserve is recorded to reduce the receivable to the amount expected to be collected. In addition, the City has established a general reserve based upon historical customer performance. Management also performs ongoing credit evaluations of its accounts and those which are considered uncollectible are reserved for through the allowance account. This includes management analyzing the aging of outstanding balances in which certain percentages will be reserved based upon the type of payee and the time period the account has been outstanding. The policy for determining when receivables are past due, or delinquent is based on how recently payments have been received. Amounts are written off at the point when collection attempts have been exhausted. Management uses significant judgment in estimating uncollectible amounts. In estimating uncollectible amounts, management considers factors such as current overall economic conditions, industry-specific economic conditions, historical customer performance, and anticipated customer performance. While management believes the City's processes effectively address its exposure to doubtful accounts, changes in economic, industry, or specific customer conditions may require adjustment to the allowance recorded by the City. As of December 31, 2020, the City had no allowance for doubtful accounts with respect to utilities.

Unbilled Revenue

The City bills customers for electric, water, and sewer services after usage based upon meter readings made during the month. The City records a receivable for unbilled revenue at December 31st for estimated usage for which bills have not been sent. Unbilled revenue in the amount of \$534,948 was recorded as of December 31, 2020.

- k. **Inventories** – Inventories, consisting primarily of fuel, waterline, and sewer materials, are valued at the lower of cost or market using the historical average method of accounting. The cost of governmental fund type inventories are recorded as expenditures when purchased.
- l. **Restricted assets** – Certain assets are classified as restricted on the statement of net position because their use is subject to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislations.

The City's restricted assets include funds allocated to comply with certain requirements of its debt instruments for payments of principal and interest and special revenue funds, which represent grants and contributions that are restricted to meet the requirements of a particular function or activity.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)

- m. **Capital assets** – Capital assets, which include land, buildings, improvements, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at their estimated fair value as of the date received. Improvements are capitalized and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest is capitalized from the date of the borrowing until the projects acquired or constructed with those funds are ready for their intended use.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Ranges of estimated useful lives are as follows:

Buildings	25 - 30 years
Building improvements	10 - 25 years
Furniture and equipment	5 - 10 years
Water system	20 - 40 years
Sewer system and plant	20 - 40 years

Assets acquired under capital lease obligations are amortized over their useful lives. The amortization expense is included with depreciation expense. Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

Interest incurred during the construction phase of capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Cost of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of general capital assets is included in the statement of revenues, expenditures, and changes in fund balances as proceeds from sale. Other costs for repairs and maintenance are expensed as incurred.

- n. **Deferred outflows/inflows of resources** – In addition to assets, the statement of net position will sometimes report 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 future periods and so will not be recognized as an outflow of resources expense/expenditure until then. The City has five items that qualify for reporting in this category which are reported in the government-wide statement of net position and the proprietary funds statement of net position. These items are related to pensions and other postemployment benefits (“OPEB”) and are as follows: contributions made after the measurement date; changes in assumptions; differences between projected and actual earnings; changes in proportion and differences between employer contribution and proportionate share; and net difference between projected and actual earnings. Deferred outflows related to contributions made after the measurement date will be used in the next year to reduce net pension liability. The remaining amounts will be amortized to expense over future periods as shown in Notes 10 and 11.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)

In addition to liabilities, the statement of net position will sometimes report 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has five items that qualify for reporting in this category. The first item is unavailable revenues that are reported in the governmental funds balance sheet. Unavailable revenue arises under the modified accrual basis of accounting and qualifies for reporting in this category. Governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The other four items are related to pensions and are reported in the government-wide statement of net position and the proprietary funds statement of net position. These items are as follows: differences between expected and actual experience; changes of assumptions; difference between projected and actual earnings; and changes in proportion and differences between employer contribution and proportionate share. Deferred inflows related to these amounts will be amortized to expense over future periods as shown in Notes 10 and 11.

- o. **Compensated absences** – The City provides all eligible full-time employees with vacation and sick leave benefits. Vacation benefits are accrued as a liability as the benefits are earned and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The City records a liability for accumulated unused sick leave for all employees with an excess of 20 years of service. Compensated absences are reported in the government-wide financial statements.
- p. **Accrued liabilities and long-term obligations** – The government-wide financial statements and proprietary funds (fund financial statements) report long-term debt and other long-term obligations as liabilities in the statement of net position. Bond premiums and discounts, as well as prepaid bond insurance costs, are amortized over the life of the related debt using the effective interest method. Premiums and discounts are shown as a direct deduction or addition to the face amount of the debt. Other issuance costs are expensed in the current period. Gains and losses on debt refundings are classified as deferred inflows or deferred outflows of resources and are amortized to interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

In the governmental funds, bond premiums, and discounts, as well as bond issuance costs, are recorded in the current period. The face amount of the debt issued is reported as other financing sources. Premiums and discounts on debt are reported as other financing sources. Issuance costs are reported as expenditures of the current period.

- q. **Classifications of net position and fund balance** – In the government-wide and proprietary fund financial statements, the difference between the City's total assets and total liabilities represents net position. Net position displays three components and are classified in the following categories:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, 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 is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies (cont.)

Restricted net position – Consists of amounts which have 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. At December 31, 2020, restricted by enabling legislation net position of governmental and business-type activities was \$579,966.

Unrestricted net position – Consists of net position that does not meet the definition of “net investment in capital assets,” or “restricted net position.”

Fund balance policies – Governmental fund balances are classified in five components. Nonspendable fund balances are not in a spendable form or are required to remain intact. Restricted fund balances may be spent only for the specific purpose stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority, which is the City Council. The City Council can commit fund balance by adoption of a resolution or ordinance. Once adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution or ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The Mayor or his designee may assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

In governmental funds, other than the General Fund, assigned fund balances represent the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Unassigned fund balance is the residual classification for the General Fund and includes all amounts not contained in other classifications.

- r. **Postemployment benefits other than pensions** – For purposes of measuring the net OPEB liability, deferred inflows, deferred outflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the benefit plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they were determined by a third party actuarial report on the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Notes to Financial Statements**December 31, 2020****1. Summary of Significant Accounting Policies (cont.)**

- s. **Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the FPRF, Arkansas Public Employees Retirement System (“APERS”), and Arkansas Local Police and Fire Retirement System (“LOPFI”), and additions to/deductions from FPRF, APERS, and LOPFI’s fiduciary net position have been determined on the same basis as they are reported by FPRF, APERS, and LOPFI. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- t. **Long-lived assets** – GASB Statement No. 42, “Accounting for Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,” requires the City to review capital assets for impairment. GASB Statement No. 42 defines impairment as a significant unexpected decline in the service utility of a capital asset. GASB Statement No. 42 applies to proprietary fund and government-wide fund financial statements and does not apply to governmental funds. Based on the City’s assessment, no triggering events or changes in circumstances occurred during the year ended December 31, 2020.

2. Stewardship, Compliance, and Accountability*Budgetary Information*

The City is required by state statutes to prepare and submit an annual budget to the City Council on or before December 1 of each year for the period January 1 to December 31 of the forthcoming year. Prior to February 1 of each year, the budget must be legally adopted through passage of a City resolution by the City Council.

Approval of the budget by the City Council amounts to an appropriation for the purposes of budgeting of funds that are lawfully applicable to the items contained therein. Encumbrance accounting is not employed and all appropriations lapse at December 31 of each year. Anticipated unexpended funds at year-end are not considered as resources for the budgeting process for the next year. The City Council has properly approved all budget overruns for the year ended December 31, 2020.

3. Deposits and Investments*Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The City’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; U.S. Treasury and U.S. agencies and instrumentality bonds or other obligations; bonds of the State of Arkansas or by bonds of a political subdivision, therefore, which has never defaulted on any of its obligations, in an amount at least equal to the amount of such deposit or by a bond executed by a surety company authorized to do business in the State of Arkansas. The City maintains separate bank accounts, as required by state statutes.

Notes to Financial Statements

December 31, 2020

3. Deposits and Investments (cont.)

The City's cash consists of deposits with financial institutions, certificates of deposit, and money market funds. State statutes govern the City's investment policies. Permissible investments include direct obligation of the U.S. Government, certificates of deposit, and savings accounts. The City's deposits are recorded at cost. The carrying amount of deposits is displayed on the accompanying statement of net position as cash and restricted cash. Certificates of deposit are displayed on the accompanying balance sheet as certificates of deposit and restricted certificates of deposit on the accompanying statement of net position.

At December 31, 2020, none of the City's balances were exposed to custodial credit risk. All investments held by the City or by an agent of the City in the City's name are insured or collateralized or limited to U.S. Treasury money markets funds.

Investments

The City's investment policies are to comply with the provisions of state statutes. Permissible investments include direct obligations of the U.S. Government, obligations of agencies of the U.S. Government, collateralized certificates of deposit, obligations issued to the Arkansas State Board of Education, prerefunded municipal bonds, certificates of deposit with banks authorized by state law to receive deposits of public funds, repurchase agreements, money market funds, and corporate debt obligations. Pension fund assets held in trust may also invest in corporate equity securities.

The City had the following investments and maturities:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More than 10 Years</u>
Investment type					
Corporate bonds	\$ 95,114	\$ 10,007	\$ 15,311	\$ 5,053	\$ 64,743
U.S. Government obligations	6,685,085	2,329,935	4,292,052	-	63,098
Municipal bonds	<u>20,179</u>	<u>-</u>	<u>15,043</u>	<u>5,136</u>	<u>-</u>
	6,800,378	<u>\$ 2,339,942</u>	<u>\$ 4,322,406</u>	<u>\$ 10,189</u>	<u>\$ 127,841</u>
Common stocks	36,939				
Mutual funds	2,368,240				
Unit trusts	<u>6,080</u>				
Total investments	<u>\$ 9,211,637</u>				

The City categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the inputs used to measure the fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are derived from or corroborated by observable market data for the asset or liability. Level 3 inputs are unobservable.

Notes to Financial Statements

December 31, 2020

3. Deposits and Investments (cont.)

The City's investments are categorized below.

<u>City Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Federal U.S. Treasury obligations				
mutual funds	\$ 1,527,101	\$ -	\$ -	\$ 1,527,101
U.S. Treasury bonds and notes	-	5,562,847	-	5,562,847
U.S. Government agency obligations	-	1,036,388	-	1,036,388
Total	<u>\$ 1,527,101</u>	<u>\$ 6,599,235</u>	<u>\$ -</u>	<u>\$ 8,126,336</u>
<u>Fiduciary Fund Investments</u>				
Equity securities	\$ 36,939	\$ -	\$ -	\$ 36,939
Unit trusts	6,080	-	-	6,080
Mutual funds	841,139	-	-	841,139
Corporate bonds	-	95,114	-	95,114
U.S. Government securities	-	85,850	-	85,850
Municipal bonds	-	20,179	-	20,179
Total	<u>\$ 884,158</u>	<u>\$ 201,143</u>	<u>\$ -</u>	<u>\$ 1,085,301</u>

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's policy is to hold all investments to maturity.

The pension funds investment policies address interest rate risk by managing asset allocation. The FPRF policy allows for a maximum investment in equities of 50% and the balance in fixed income (including cash equivalents) and other investments. Within the above allocation, the cash and cash equivalents range is 5% - 25%, fixed income investments range is 15% - 75%, equities 25% - 60%, and other investments is 0% - 10%.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As described earlier in this section, the City's investment policy follows Arkansas law which limits the types of investments that can be made by the City. The City's investment policy does not allow for investment in derivative products, common stock, or long-term bonds used for speculation.

The FPRF policy is that fixed income securities must be investment grade or better.

Notes to Financial Statements

December 31, 2020

3. Deposits and Investments (cont.)

At December 31, 2020, the City's investments not directly guaranteed by the U.S. government were rated as follows:

<u>Investment Type</u>	<u>Rating Agency</u>	<u>Rating</u>
U.S. Government agency obligations	S&P/Moody's	AA+/Aaa
Corporate bonds	S&P/Moody's	BBB+ to AAA/Ca to Aaa
Municipal bonds	S&P/Moody's	AA+/A ₁ to Aaa

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. While the City's investment policy does not directly address custodial credit risk, all investments held by the City or by an agent of the City's name are insured or collateralized or limited to U.S. Treasury money market funds. The City's pension fund assets are invested by an asset manager and are held by LPL Financial in the City's name. All funds held by LPL Financial are insured. In addition, the City's investment policy requires that security broker/dealers will meet or exceed the capital adequacy standards set by the Federal Reserve Bank.

The following is the detail of cash and cash equivalents and certificates of deposit:

	<u>Primary Government</u>	<u>Component Unit</u>
Carrying value		
Deposits	<u>\$ 31,323,332</u>	<u>\$ 147,884</u>
As reported on the government-wide statement of net position		
Cash and cash equivalents	\$ 13,728,286	\$ 147,884
Certificates of deposit	543,174	-
Restricted		
Cash and cash equivalents	16,100,575	-
Certificates of deposit	717,193	-
As reported on the statement of fiduciary funds net position		
Cash	218,805	-
Certificates of deposit	<u>15,299</u>	<u>-</u>
	<u>\$ 31,323,332</u>	<u>\$ 147,884</u>

Notes to Financial Statements

December 31, 2020

4. Accounts Receivable

Accounts receivable for the year ended December 31, 2020, for the City's General Fund, Street Fund, 2012 Parks and Recreation Fund, 2012 Operations and Maintenance Fund, and nonmajor funds in the aggregate, proprietary and fiduciary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General <u>Fund</u>	Street <u>Fund</u>	2012 Parks and Recreation <u>Fund</u>	2012 Operations and Maintenance <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Governmental						
Property taxes	\$ 1,086,001	\$ 332,672	\$ -	\$ -	\$ -	\$ 1,418,673
Sales taxes	167,784	-	185,476	185,476	7,742	546,478
Franchise taxes	180,095	-	-	-	-	180,095
Sanitation	253,719	-	-	-	-	253,719
Other	<u>50,971</u>	<u>81,787</u>	<u>-</u>	<u>-</u>	<u>11,870</u>	<u>144,628</u>
Gross receivables	1,738,570	414,459	185,476	185,476	19,612	2,543,593
Less allowance for uncollectibles	<u>61,345</u>	<u>18,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,892</u>
Net total receivables	<u>\$ 1,677,225</u>	<u>\$ 395,912</u>	<u>\$ 185,476</u>	<u>\$ 185,476</u>	<u>\$ 19,612</u>	<u>\$ 2,463,701</u>
	<u>Utilities</u>					
Proprietary						
Accounts	\$ 1,382,847					
Sales taxes	<u>370,953</u>					
Net total receivables	<u>\$ 1,753,800</u>					
Fiduciary						
Property taxes	\$ 220,347					
Less allowance for uncollectibles	<u>13,304</u>					
Net total receivables	<u>\$ 207,043</u>					

Component unit receivables for fuel, state grants, and other sales were \$103,093 at December 31, 2020.

Notes to Financial Statements

December 31, 2020

5. Capital Assets

Capital asset balances and activity are as follows:

	Balance 12/31/19	Additions	Transfers and Disposals	Balance 12/31/20
Governmental activities				
Capital assets, nondepreciable				
Land	\$ 2,553,870	\$ -	\$ -	\$ 2,553,870
Capital assets, depreciable				
Plant and equipment	46,058,695	1,032,107	(738,215)	46,352,587
Streets and infrastructure	103,013,782	-	-	103,013,782
Total capital assets, depreciable	149,072,477	1,032,107	(738,215)	149,366,369
Less accumulated depreciation				
Plant and equipment	14,712,924	2,053,102	(428,908)	16,337,118
Streets and infrastructure	100,449,454	402,424	-	100,851,878
Total accumulated depreciation	115,162,378	2,455,526	(428,908)	117,188,996
Total governmental activities, net	\$ 36,463,969	\$ (1,423,419)	\$ (309,307)	\$ 34,731,243
Business-type activities				
Capital assets, nondepreciable				
Land	\$ 98,070	\$ -	\$ -	\$ 98,070
Construction in progress	1,174,903	2,842,988	(3,396,389)	621,502
Total capital assets, nondepreciable	1,272,973	2,842,988	(3,396,389)	719,572
Capital assets, depreciable				
Plant and equipment	102,188,924	366,968	2,970,460	105,526,352
Less accumulated depreciation	38,353,686	3,906,515	(414,939)	41,845,262
Total business-type activities, net	\$ 65,108,211	\$ (696,559)	\$ (10,990)	\$ 64,400,662
Component unit				
Capital assets, nondepreciable				
Land	\$ 425,315	\$ -	\$ -	\$ 425,315
Construction in progress	-	39,293	-	39,293
Total capital assets, nondepreciable	425,315	39,293	-	464,608
Capital assets, depreciable				
Plant and equipment	12,874,686	145,249	-	13,019,935
Less accumulated depreciation	6,836,062	434,053	-	7,270,115
Total component unit, net	\$ 6,463,939	\$ (249,511)	\$ -	\$ 6,214,428

Notes to Financial Statements

December 31, 2020

5. Capital Assets (cont.)

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
General government	\$ 31,695
Public safety	310,244
Highway and streets	511,079
Sanitation	59,147
Recreation and culture	1,505,184
Cemetery	<u>38,177</u>
	2,455,526
Business-type activities	
Water and wastewater utilities	<u>3,906,515</u>
Total depreciation expense - primary government	<u>\$ 6,362,041</u>
Component unit	
Batesville Regional Airport	<u>\$ 434,053</u>

6. Long-Term Liabilities*Amendment 78 Bonds and Notes Payable*

In 2001, the State of Arkansas passed Amendment No. 78 allowing cities to obtain short-term financing agreements, including capital leases, for the purpose of acquiring, constructing, installing, or renting real property or tangible personal property having an expected useful life of more than one year. The agreements are not to exceed five years. The City is limited in the amount of short-term financing available in any given year to 5% of the assessed valuation of property within the City. The limit applies to the City's governmental activities. The City's general obligation total debt limit for 2020 was \$48,610,284, with \$9,722,057 in short-term debt limit. At December 31, 2020, the City had outstanding short-term debt of \$723,290.

General Obligation Bonds

Issuance of long-term general obligation bonds by the City is governed by Arkansas Statutes. The statutes require voter approval for issuance of general obligation bonds. General obligation bonds pledge the full faith and credit of the government. The City currently has no authorized but unissued general obligation bonds.

Notes to Financial Statements

December 31, 2020

6. Long-Term Liabilities (cont.)*Sales and Use Tax Capital Improvement Bonds*

Issuance of sales and use tax capital improvement bonds is governed by Arkansas Statutes. The statutes require voter approval for the issuance of the bonds. The bonds are special obligations of the City secured by and payable solely from receipts of the sales and use tax. The City currently has no authorized but unissued sales and use tax capital improvement bonds.

Below is a brief description of the outstanding long-term governmental activity debt.

Governmental Activities

The governmental long-term debt of the City consists of the following:

Series 2012 Bonds, payable in semiannual interest payments, interest at 3.0% to 4.625%, and annual principal payments, maturing in September 2037, includes unamortized premium of \$129,492.	\$ 18,024,492
Equipment lease-purchase agreement with Bancorp South Equipment, dated September 9, 2020, for the purchase of garbage containers, monthly installments of \$7,634, including imputed interest at 1.99%, due on December 8, 2022.	462,824
Equipment lease-purchase agreement with Bancorp South Equipment, dated August 6, 2018, for the purchase of garbage containers, monthly installments of \$5,201, including imputed interest at 3.74%, due on July 17, 2023.	153,460
Equipment lease-purchase agreement with Bancorp South Equipment, dated August 5, 2019, for the purchase of equipment, monthly installments of \$2,595, including imputed interest at 3.29%, due on August 7, 2022. Note paid in full subsequent to year-end.	<u>107,006</u>
Total governmental activities long-term debt	<u>\$ 18,747,782</u>

Notes to Financial Statements

December 31, 2020

6. Long-Term Liabilities (cont.)*Business-type Activities*

The long-term debt from proprietary fund resources of the City consists of the following:

<p>Revolving Loan Fund #00897-CWRLF-L administered by the Arkansas Natural Resources Commission, original loan amount \$13,500,000, dated June 25, 2013; interest and principal payments due ranging from \$430,943 to \$851,343; bonds pledged as collateral for loan held by the Arkansas Development Finance Authority to provide funds to finance extensions, betterments, and improvements to the City's sewer system; secured by utility system revenues; interest rate of 2.5%, with final maturity dated April 15, 2036.</p>	\$ 11,018,808
<p>Revolving Loan Fund #00950-CWRLF-L administered by the Arkansas Economic Development Commission, original loan amount \$10,200,000, dated June 22, 2015; interest and principal payments due ranging from \$266,587 to \$423,276; bonds pledged as collateral for loan held by the Arkansas Development Finance Authority to provide funds to finance extensions, betterments, and improvements to the City's sewer system; secured by utility system revenues; interest rate of 2.5%, with final maturity dated October 15, 2041.</p>	1,083,206
<p>Equipment lease-purchase agreement with Citizens Bank, dated July 30, 2019, for the purchase of three trucks, monthly installments of \$3,610, including interest at 3.29%, remaining unpaid balance due on July 30, 2021. Note paid in full subsequent to year-end.</p>	291,716

Notes to Financial Statements

December 31, 2020

6. Long-Term Liabilities (cont.)

Note payable with a financial institution, dated June 15, 2016, for the purchase of one truck, annual payments of \$79,782, including interest at 2.44%, due on June 15, 2021. Note paid in full subsequent to year-end.	<u>\$ 77,856</u>
Total business-type activities long-term debt	<u>\$ 12,471,586</u>

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of various equipment. The lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is an analysis of leased assets under capital leases:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Cost	\$ 483,326	\$ 452,829	\$ 936,155
Less accumulated depreciation	<u>21,642</u>	<u>64,149</u>	<u>85,791</u>
Net book value	<u>\$ 461,684</u>	<u>\$ 388,680</u>	<u>\$ 850,364</u>

Notes to Financial Statements

December 31, 2020

6. Long-Term Liabilities (cont.)*Changes in Long-Term Liabilities*

The following is a summary of changes in long-term liabilities:

Governmental Activities

	Balance <u>12/31/19</u>	Additions	Reductions	Balance <u>12/31/20</u>	Amounts Due Within <u>One Year</u>
Governmental activities					
Bonds payable					
2012 Series Bond	\$ 19,270,000	\$ -	\$ 1,375,000	\$ 17,895,000	\$ 865,000
Add issuance premium	<u>142,876</u>	<u>-</u>	<u>13,384</u>	<u>129,492</u>	<u>-</u>
Bonds payable, net	<u>19,412,876</u>	<u>-</u>	<u>1,388,384</u>	<u>18,024,492</u>	<u>865,000</u>
Capital leases	<u>860,467</u>	<u>483,327</u>	<u>620,504</u>	<u>723,290</u>	<u>168,675</u>
Other long-term liabilities					
Compensated absences	156,701	45,631	-	202,332	96,748
OPEB liabilities	692,056	202,508	-	894,564	-
Net pension obligation	<u>9,727,817</u>	<u>-</u>	<u>591,332</u>	<u>9,136,485</u>	<u>-</u>
Total other long-term liabilities	<u>10,576,574</u>	<u>248,139</u>	<u>591,332</u>	<u>10,233,381</u>	<u>96,748</u>
Total governmental activities long-term liabilities	<u>\$ 30,849,917</u>	<u>\$ 731,466</u>	<u>\$ 2,600,220</u>	<u>\$ 28,981,163</u>	<u>\$ 1,130,423</u>
Business-type activities					
Revolving loan fund	\$ 24,219,084	\$ -	\$ 12,117,070	\$ 12,102,014	\$ 1,003,883
Notes payable	153,822	-	75,966	77,856	77,856
Capital leases	327,486	-	35,770	291,716	291,716
Compensated absences	189,872	-	-	189,872	95,908
Net pension obligation	<u>2,287,303</u>	<u>348,671</u>	<u>-</u>	<u>2,635,974</u>	<u>-</u>
Total business-type activities long-term liabilities	<u>\$ 27,177,567</u>	<u>\$ 348,671</u>	<u>\$ 12,228,806</u>	<u>\$ 15,297,432</u>	<u>\$ 1,469,363</u>

Component Unit

	Balance <u>12/31/19</u>	Additions	Reductions	Balance <u>12/31/20</u>	Amounts Due Within <u>One Year</u>
Notes payable	<u>\$ 27,361</u>	<u>\$ -</u>	<u>\$ 27,361</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Financial Statements

December 31, 2020

6. Long-Term Liabilities (cont.)*Annual Debt Service Requirements*

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

	<u>Interest Rate</u>	<u>Governmental Activities</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	1.99% - 3.00%	\$ 1,033,675	\$ 707,325	\$ 1,741,000
2022	1.99% - 3.00%	1,408,658	674,355	2,083,013
2023	3.00% - 3.74%	950,957	638,640	1,589,597
2024	3.125%	945,000	610,740	1,555,740
2025	3.20%	970,000	581,208	1,551,208
2026 - 2030	3.50% - 4.625%	5,510,000	2,264,294	7,774,294
2031 - 2035	3.75% - 4.00%	6,730,000	1,039,488	7,769,488
2036	4.00%	1,070,000	42,800	1,112,800
		<u>\$ 18,618,290</u>	<u>\$ 6,558,850</u>	<u>\$ 25,177,140</u>
	<u>Interest Rate</u>	<u>Business-type Activities</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	2.44% - 3.29%	\$ 1,373,455	\$ 179,928	\$ 1,553,383
2022	2.5%	1,274,313	155,023	1,429,336
2023	2.5%	620,134	145,046	765,180
2024	2.5%	635,735	135,686	771,421
2025	2.5%	651,727	126,090	777,817
2026 - 2030	2.5%	3,512,968	477,854	3,990,822
2031 - 2035	2.5%	3,977,630	199,056	4,176,686
2036 - 2038	2.5%	425,624	5,320	430,944
		<u>\$ 12,471,586</u>	<u>\$ 1,424,003</u>	<u>\$ 13,895,589</u>

Notes to Financial Statements**December 31, 2020****6. Long-Term Liabilities (cont.)***Sales and Use Tax Bonds – Governmental Activities*

On July 31, 2012, the City issued \$25,900,000 in Sales and Use Tax Bonds Series 2012 (“Series 2012 Bonds”), dated July 1, 2012. The interest rates on the Series 2012 Bonds range from 3.0% to 4.625%, payable semiannually. Maturity dates range from September 1, 2013 to September 1, 2036. The Series 2012 Bonds are not general obligations of the City, but are special obligations, secured by a first and prior pledge of collections of a 0.5% sales and use tax levied by the City under City Ordinance No. 2011-12-05 adopted by the City on December 27, 2011, and a 0.5% sales and use tax levied by the City under City Ordinance No. 2011-12-03 adopted by the City on December 27, 2011. The issuance of the Series 2012 Bonds and the pledging of the tax revenues were approved at a special election held March 13, 2012.

The Series 2012 Bonds were issued for the purpose of financing the costs for capital improvements of the City’s park and recreational facilities and improvements, including land acquisition, equipment and parking, drainage, lighting, and utility improvements.

The Series 2012 Bonds are subject to extraordinary redemption from proceeds not needed for the purposes intended and surplus tax receipts on any interest payment date, at least annually, in inverse order of maturity, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. The Series 2012 Bonds may be redeemed at the option of the City, from funds from any source, on and after September 1, 2019, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

The Series 2012 Bonds were issued at a premium of \$254,091. Bond issue costs of \$343,938 were incurred in the issuance of the Series 2012 Bonds.

The City is required to maintain a debt service reserve equal to one-half of the maximum annual debt service requirements on the Series 2012 Bonds as originally issued. At December 31, 2020, the City held investments equal to \$1,527,101 in the 2012 Series Bonds Debt Service Reserve Fund.

Applicability of Federal Arbitrage Regulations

Debt issuances of the City issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. These regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These rules carry strict penalties for noncompliance, including taxability of interest retroactive to the date of issue. City management believes the City is in compliance with these rules and regulations.

The City has no accrued arbitrage liability as of December 31, 2020.

Notes to Financial Statements

December 31, 2020

7. **Leases**

The City holds cancelable leases that arise from the leasing of the Airport's land, hangars, and a residential building. Initial lease terms range from 20 to 40 years with the majority of the agreements having 5 to 10-year renewal options. Ownership of hangars built on airport land by lessees reverts to the Airport at the end of the lease period if it is not removed by the lessees. Hangars and buildings are carried at a cost of \$1,430,273 and net book value of \$999,121.

Future minimum rental payments to be received on noncancelable operating leases as of December 31, 2020 are due as follows:

<u>Year(s) Ending December 31,</u>	
2021	\$ 24,708
2022	20,036
2023	16,372
2024	15,412
2025	15,412
2026 - 2030	48,229
2031 - 2035	6,061
2036 - 2040	2,290

8. **Risk Management***Governmental Functions*

The City is exposed to various risks of loss from theft of, damage to, and destruction of assets; errors and omissions; business interruption; employee injuries and illness; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial insurance in any of the three preceding years.

Coverage is provided both commercially and through the Arkansas Municipal League ("AML"), which is an association of local governments. The AML provides the City with automobiles, legal defense, and workers' compensation. Fixed premiums are set annually by the AML based on such factors as claims experience, employee class multipliers, and population. For risks related to vehicle accidents covered by the AML, the City pays a \$1,000 deductible per incident. For legal risks covered by the AML, the City pays no deductible; however, the City pays a \$3,000 fee to the AML for each legal matter it handles. Coverage under these policies meets statutory liability limits and requirements, and the City's risk of loss is effectively transferred. Additionally, the City has instituted various safety programs to reduce losses. There have been no significant reductions in insurance coverage through 2020, nor have settlement amounts exceeded insurance coverage for each of the past three years.

Notes to Financial Statements

December 31, 2020

9. Balances and Transfers/Payments Within the Reporting Entity

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

Amount of interfund transfers between funds are summarized as follows:

	Transfers <u>In</u>	Transfers <u>Out</u>
<u>Primary Government</u>		
Governmental funds		
General Fund	\$ 236,000	\$ -
2012 Operations and Maintenance Fund	-	75,000
Community Center Fund	<u>75,000</u>	<u>-</u>
Total governmental funds	<u>311,000</u>	<u>75,000</u>
Proprietary funds		
Water Fund	192,033	1,651,333
Wastewater Fund	42,573	1,199,250
Utility Capital Fund	<u>2,379,977</u>	<u>-</u>
Total proprietary funds	<u>2,614,583</u>	<u>2,850,583</u>
Fiduciary funds		
Cemetery Fund	<u>23,601</u>	<u>23,601</u>
	<u>\$ 2,949,184</u>	<u>\$ 2,949,184</u>

The City's interfund receivables and payables at December 31, 2020 (at the fund level) are shown below. These amounts represent short-term receivables and payables. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Notes to Financial Statements

December 31, 2020

9. **Balances and Transfers/Payments Within the Reporting Entity (cont.)**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Utility Capital Fund	General Fund	\$ 336,970
Utility Sales Tax Fund	General Fund	798,380
Utility Capital Fund	2012 Operations and Maintenance Fund	<u>342,413</u>
		<u>\$ 1,477,763</u>

10. **Retirement Plans*****FPRF****Plan Description*

FPRF is a single employer defined benefit pension plan for the fire personnel employed by the City prior to January 1, 1983. The plan does not prepare separate financial statements.

The Arkansas Fire and Police Pension Review Board oversees requests for benefit increases and review of the annual financial and actuarial reports. The Arkansas Fire and Police Pension Review Board is composed of eight members as follows: two fire fighters, two police officers, and three persons appointed by the governor from a list submitted by the AML and one person who is not a current or former retirant and who is not a current or former member of the governing body of any political subdivision, to be appointed by the Governor.

In addition to the Arkansas Fire and Police Pension Review Board, each fund has a Board of Trustees consisting of seven members. The members are comprised of the Chief Executive Officer of the City, the City Treasurer, and five active or retired members of the pension fund who are elected by secret written ballot in May of each year. The plan became closed, by State law, to new employees effective January 1983.

Benefits Provided

Minimum benefits are determined by state statutes. Annual voluntary retirement benefits for fire equal 90% of the member's highest year's pay. Members are eligible for these benefits after 20 years of service. Employees retiring after January 1, 1987 are entitled to additional compensation of \$240 annually for each year worked in excess of 20 years, up to a maximum additional annual compensation of \$1,200. Benefits for participants over age 59 are increased by 1.25% of final salary for each year worked in excess of 25 years up to a maximum benefit of 100% of final salary.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)**

The Board of Trustees has the ability to make ad hoc cost of living adjustments (“COLA”) and other benefit improvements through a process that requires actuarial soundness and approval by the Pension Review Board. Therefore, in the opinion of the actuary, any increases are not substantively automatic and no COLA is included in the determination of the total pension liability.

Employees Covered By Benefit Terms

At December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
	<hr/>
	16
	<hr/>

Contributions

Contributions to the FPRF are set forth in Arkansas statute. The City’s contributions to the funds are partially funded by a 1 mill property tax levy which amounted to \$193,201. In addition, the plan is funded by a portion of a statewide 2½% tax on insurance premiums of out-of-state insurance companies. Payments from the State Insurance Commissioner of \$85,450 for the FPRF were received by the City from the LOPFI. These funds were recognized as revenues and expenses for benefits in 2019.

In addition, Act 1373 of 2003 authorized the distribution of supplement funds to local fire plans. Distributions to the FPRF were \$23,660 for the year ended December 31, 2020.

The plan requires active members to contribute 6% of their eligible gross salary. The plan had no active members employed and contributing.

The net pension liability for the FPRF has been recognized in the City’s statement of net position on page 12 to comply with GASB standards. However, based on an interpretation of state law by the City’s legal counsel, management of the City believes that if these Plans were to become insolvent, whereby remaining plan assets were not adequate to pay current benefits, the City may not be legally obligated to fund any deficiency.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)***Actuarial Assumptions*

The total pension liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all period included in the measurement for the FPRF.

Valuation date	December 31, 2020
Cost method	Entry age normal
Asset valuation method	Market value of assets
Amortization method	Level dollar, open
Amortization period remaining	Five years
Assumptions	
Inflation rate - price	2.50%
Investment rate of return	5.00%
Projected salary increases	4.0% to 8.0%

Mortality rates for retirees and beneficiaries were based on the gender distinct 1983 Group Annuity Mortality Table. For females, the male table was used with a five-year setback. For disabled members the mortality rates are based on the Eleventh Actuarial Valuation of the Railroad Retirement System for occupational disabilities.

Actuarial assumptions used in the December 31, 2020 valuation were based on the results of actuarial experience study for 2007-2012. No additional experience study is deemed necessary at this time since the recent experience study did not show significant improvement over an experience study for 2000-2006 deaths.

Net Pension Liability

The City's net pension liability was measured as of December 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability of the FPRF were as follows:

Total pension liability	\$ 2,964,552
Plan net position	<u>349,834</u>
Net pension liability	<u>\$ 2,614,718</u>
Plan net position as a % of total pension liability	11.80%

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)***Changes in Net Pension Liability*

	Total Pension <u>Liability</u>	Plan Fiduciary <u>Net Position</u>	Net Pension <u>Liability</u>
Balance at December 31, 2019	\$ 3,510,260	\$ 370,529	\$ 3,139,731
Changes for the year			
Interest on net pension liability	111,689	-	111,689
Differences between expected and actual experience	58,648	-	58,648
Employer contribution	-	266,358	(266,358)
Net investment income	-	(2,885)	2,885
Benefits and refunds	(284,168)	(284,168)	-
Assumption changes	<u>(431,877)</u>	<u>-</u>	<u>(431,877)</u>
Net changes	<u>(545,708)</u>	<u>(20,695)</u>	<u>(525,013)</u>
Balance at December 31, 2020	\$ 2,964,552	\$ 349,834	\$ 2,614,718

Method Used to Value Investments

Investments are stated at fair value in the statement of fiduciary net position. The fair value of marketable investments, including U.S. Government securities and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at the statement date (fair value).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis of accounting. Dividends are recorded on the ex-dividend date. Net appreciation in fair value of investments reflected in the statement of changes in fiduciary net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. Net unrealized gains or losses on investments represent the change in the difference between the cost and market value of the investments at the beginning of the year versus the end of the year.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return. The rates were built on a target allocation for all local police and fire pension funds, the target for an individual fund will vary within the guidelines of Arkansas law and regulation.

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)

The target allocation and the long-term expected rates of return are shown in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic fixed income	80%	2.25%
Domestic equity	10%	4.75%
Foreign equity	0%	6.25%
Cash and cash equivalents	<u>10%</u>	0.25%
Total	<u>100%</u>	
Expected real rate of return		3.38%
Expected inflation		<u>2.50%</u>
Net expected return		<u>5.88%</u>

Discount Rate

A single discount rate of 5.0% for the FPRF was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 5.0%. The projection of cash flows, based on the assumptions made, found that the pension plan's net position was insufficient to make all projected future benefit payments of current members. Therefore, the single discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the plan's liability calculated using a single discount rate, as well as what the plan's liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher.

	1% Decrease <u>4.00%</u>	Current Rate Assumed <u>5.00%</u>	1% Increase <u>6.00%</u>
Total pension liability	\$ 3,208,301	\$ 2,964,552	\$ 2,752,275
Net pension liability	2,858,467	2,614,718	2,402,441

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)**

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2020, the City recognized pension expense of \$321,932.

At December 31, 2020, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 70,605	\$ (259,012)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

2021	\$ (52,912)
2022	(57,544)
2023	(82,144)
2024	<u>4,193</u>
Total	<u>\$ (188,407)</u>

LOPFI*Plan Description*

LOPFI is a statewide cost-sharing multiple-employer defined benefit pension plan administered by the LOPFI Board of Trustees. LOPFI provides retirement, disability, and survivor benefits to police and fire employees of political subdivision of the State of Arkansas. LOPFI was created by Act 364 of the 1981 General Assembly. Employees hired after January 1, 1983, whose political subdivision had a retirement system in effect at July 1, 1981, are eligible to participate in the plan.

Benefits Provided

LOPFI provides for a retirement benefit paid to the member on a monthly basis. The monthly benefit is based on a formula provided by law for the member's lifetime. The member has several options in calculating the benefit, which is normally the result of these factors: age of retirement, retirement multiplier, amount of credit services (years and months), and final average pay. Each option available to the member provides for a different calculation based on these factors.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)***Contributions*

Contributions to LOPFI are made by both the member and the employers. Member contribution rates are established by LOPFI's Board of Trustees. The employer contributions are actuarially determined on an annual basis. The City contributes 16.2% of covered employee salaries to the plan. Employees contributed \$72,709 to the contributory plan for the year ended December 31, 2020. City contributions to the plan were \$266,891 for the year ended December 31, 2020 and were equal to 100% of the required contributions for the year.

LOPFI's Fiduciary Net Position

Detailed information about LOPFI's fiduciary net position is available in the separately issued LOPFI financial report available by writing to LOPFI, 620 West 3rd Street, Little Rock, Arkansas 72201, or by calling (501) 682-1745.

Net Pension Liability

The collective net pension liability of \$814,740,234 was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

The net pension liability of paid and volunteer entities participating in the cost-sharing pension plan was as follows:

	<u>Paid</u>	<u>Volunteer</u>	<u>Total</u>
Total pension liability	\$ 2,884,471,916	\$ 136,384,837	\$ 3,020,856,753
Plan net position	<u>2,111,731,002</u>	<u>94,385,517</u>	<u>2,206,116,519</u>
Net pension liability	<u>\$ 772,740,914</u>	<u>\$ 41,999,320</u>	<u>\$ 814,740,234</u>
Plan net position as a % of total pension liability	73.21%	69.21%	73.03%

The net pension liability for the City's portion of the total plan was \$3,234,823 and has been recognized in the City's accompanying statement of net position on page 12.

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources to Pensions

For the year ended December 31, 2020, the City recognized pension expense of \$964,056. At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 303,130	\$ 567
Changes in assumptions	272,553	-
Changes in proportion and differences between employer contributions and share of contributions	121,352	119,970
Changes in differences	-	387,394
City contributions subsequent to the measurement date	<u>266,891</u>	<u>-</u>
Total	<u>\$ 963,926</u>	<u>\$ 507,931</u>

Amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the City and the District will be recognized in pension expense as follows:

2021	\$ 299,713
2022	50,745
2023	10,507
2024	<u>(171,861)</u>
Total	<u>\$ 189,104</u>

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)*Actuarial Assumptions*

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Paid service assumptions	
Wage inflation	3.25%
Price inflation	2.50%
Investment rate of return	7.00%
Actuarial cost method	Entry age normal
Volunteer service assumptions	
Inflation	2.50%
Investment rate of return	7.00%
Actuarial cost method	Entry age normal

Mortality rates were based on the RP-2014 Healthy Annuitant, Disabled Retiree, and Employee mortality tables for males and females. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2016.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)

Best estimates of arithmetic real rates of return for each major asset class included in LOPFI's target asset allocation as of December 31, 2018 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	30%	0.40%
Domestic equity	42%	2.27%
Foreign equity	18%	1.40%
Alternative investments	<u>10%</u>	<u>0.67%</u>
Total	<u>100%</u>	4.74%
Expected inflation		<u>2.25%</u>
Net expected return		<u>6.99%</u>

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

1% Lower	Discount Rate	1% Higher
<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
\$ 5,147,431	\$ 3,234,823	\$ 1,693,347

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)****APERS***Plan Description*

APERS is a cost-sharing, multiple-employer, defined benefit plan which covers all City employees who are not covered by another authorized plan. The plan was established by the authority of the Arkansas General Assembly with the passage of Act 177 of 1957. The costs of administering the plan are paid out of investment earnings. The general administration and responsibility for the proper operation of APERS is vested in the nine members of the Board of Trustees of APERS (the "Board"). Membership includes three state and three non-state employees, all appointed by the governor, and three ex-officio trustees, including the auditor of the state, the treasurer of the state, and the director of the department of finance and administration.

The City and the District have separate plans with APERS. Information will be presented for each plan.

Benefits Provided

Benefit provisions are set forth in Arkansas Code Annotated, Title 24, Chapters 5 and 6 and may only be amended by the Arkansas General Assembly. APERS provides retirement, disability, and death benefits. Retirement benefits are determined as a percentage of the member's highest three-year average compensation times the member's years of service. The percentage used is based upon whether a member is contributory or noncontributory as follows:

Contributory, prior to July 1, 2005	2.07%
Contributory, on or after July 1, 2005, but prior to July 1, 2007	2.03%
Contributory, on or after July 1, 2007	2.00%
Noncontributory	1.72%

Members are eligible to retire with a full benefit under the following conditions:

- at age 65 with five years of service,
- at any age with 28 years actual service,
- at age 60 with 20 years of actual service if under the old contributory plan (prior to July 1, 2005), or
- at age 55 with 35 years of credited service for elected or public safety officials.

Members may retire with a reduced benefit at age 55 with at least five years of actual service or at any age with 25 years of service.

Members are eligible for disability benefits with five years of service. Disability benefits are computed as an age and service benefit, based on service, and pay at disability. Death benefits are paid to a surviving spouse as if the member had five years of service and the monthly benefit is computed as if the member had retired and elected the joint and 75% survivor option. A cost-of-living adjustment of 3% of the current benefit is added each year.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)***Contributions*

Contribution requirements are set forth in Arkansas Code Annotated, Title 24, Chapter 4. The contributions are expected to be sufficient to finance the costs of benefits earned by members during the year and make a level payment that, if paid annually over a reasonable period of future years, will fully cover the unfunded costs of benefit commitments for services previously rendered (A.C.A. 24-2-701(a)). Members who began service prior to July 1, 2005 are not required to make contributions to APERS. Members who began service on or after July 1, 2005 are required to contribute 5% of their salary. Employers are required to contribute at a rate established by the Board of APERS based on an actuary's determination of a rate required to fund the plan (A.C.A. 24-2-701(c)(3)). Employers contributed 14.75% of compensation for the fiscal year ended June 30, 2018. In some cases, an additional 2.5% of member and employer contributions are required for elected officials.

APERS's Fiduciary Net Position

Detailed information about APERS's fiduciary net position is available in the separately issued APERS financial report available at <http://www.apers.org/annualreports>.

Net Pension Liability

The collective net pension liability of \$2,863,584,487 was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employer's share of contributions to the pension plan relative to the total contributions of all participating employers.

The net pension liability in the cost-sharing pension plan at June 30, 2020 is as follows:

Total pension liability	\$ 11,632,595,177
Plan net position	<u>8,769,010,690</u>
Net pension liability	<u>\$ 2,863,584,487</u>
Plan net position as a % of total pension liability	75.38%

The net pension liability for the City's portion of the total plan was \$3,020,053 and has been recognized in the City's accompanying statement of net position on page 12. The net pension liability for the District's portion of the total plan was \$2,635,974 and has been recognized in the District's accompanying statement of net position on page 12 and the statement of fund net position – proprietary funds on page 17.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)**

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources to Pensions

For the year ended December 31, 2020, the City and the District recognized pension expense of \$709,564. At December 31, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

City of Batesville, Arkansas		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,092	\$ 2,000
Changes of assumptions	37,839	51,744
Changes in proportion and differences between employer contributions and proportionate share of contributions	206,368	9,777
Net difference between projected and actual earnings on pension plan investments	319,560	-
City contributions subsequent to the measurement date	<u>133,423</u>	<u>-</u>
Total	<u>\$ 737,282</u>	<u>\$ 63,521</u>
Batesville Waterworks and Batesville Sewer Improvement District		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,994	\$ 1,746
Changes of assumptions	33,028	45,164
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,880	52,688
Net difference between projected and actual earnings on pension plan investments	278,920	-
District contributions subsequent to the measurement date	<u>151,784</u>	<u>-</u>
Total	<u>\$ 523,606</u>	<u>\$ 99,598</u>

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)

Amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. Of these amounts \$133,423 relates to the City's plan and \$151,784 relates to the District's plan. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions for the City and the District will be recognized in pension expense as follows:

City of Batesville, Arkansas	
2021	\$ 104,645
2022	162,856
2023	176,173
2024	<u>96,664</u>
Total	<u>\$ 540,338</u>
Batesville Waterworks and Batesville Sewer Improvement District	
2021	\$ 19,481
2022	71,886
2023	99,039
2024	<u>81,818</u>
Total	<u>\$ 272,224</u>

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)***Actuarial Assumptions*

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level of percent of payroll, closed (level dollar, closed for district judges new plan and paid off old plan, and district judges still paying old plan)
Remaining amortization period	26 years (7.6 years for district judges new plan/paid off old plan and 16 years for district judges still paying old plan)
Asset valuation method	Four-year smoothed market; 25% corridor (market value for still paying old plan)
Actuarial assumptions	
Investment rate of return	7.15%
Salary increases	3.25 - 9.85% including inflation (3.25% - 6.96% including inflation for district judges)
Inflation	3.25% wage inflation, 2.50% price inflation

Mortality rates were based on the RP-2006 Healthy Annuitant benefit weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females and are adjusted for fully generational mortality improvements using Scale MP-2017.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Notes to Financial Statements

December 31, 2020

10. Retirement Plans (cont.)

Best estimates of arithmetic real rates of return for each major asset class included in APERS's target asset allocation as of June 30, 2020 are summarized in the table below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Broad domestic equity	37%	6.22%
International equity	24%	6.69%
Real assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	<u>18%</u>	0.57%
Total	<u>100%</u>	
Total real rate of return		4.93%
Price inflation - actuary assumption		<u>2.50%</u>
Net expected return		<u>7.43%</u>

Discount Rate

A single discount rate of 7.15% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.15%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial Statements

December 31, 2020

10. **Retirement Plans (cont.)**

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.15%) or 1-percentage-point higher (8.15%) than the current rate:

City of Batesville, Arkansas		
1% Lower	Discount Rate	1% Higher
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
\$ 4,599,765	\$ 3,020,053	\$ 1,716,434
Batesville Waterworks and Batesville Sewer Improvement District		
1% Lower	Discount Rate	1% Higher
<u>6.15%</u>	<u>7.15%</u>	<u>8.15%</u>
\$ 4,014,783	\$ 2,635,974	\$ 1,489,144

Summary of Pension Information

Aggregate amounts for the pension plans are as follows:

	<u>FPRF</u>	<u>LOPFI</u>	<u>APERS - City</u>	<u>APERS - Utilities</u>	<u>Total</u>
Net pension liabilities	\$ 2,614,718	\$ 3,501,714	\$ 3,020,053	\$ 2,635,974	\$ 11,772,459
Deferred outflows of resources	70,605	963,926	737,282	523,606	2,295,419
Deferred inflows of resources	(259,012)	(507,931)	(63,521)	(99,598)	(930,062)

11. **OPEB**

Plan Description

The City sponsors and administers an informal single-employer defined benefit healthcare plan. Arkansas Statutes provide that any municipal city official or employee with 20 years of service and attains 55 years of age or any municipal city official or employee vested in any of the City’s retirement plans at any age with 28 years of service may continue to participate in the City’s healthcare plan after retirement. The State of Arkansas has the authority to establish and amend the requirements of the statutes. The City does not issue standalone financial statements of the plan; however, all required information is presented in this report.

Notes to Financial Statements

December 31, 2020

11. **OPEB (cont.)***Employees Covered by Benefit Terms*

The following employees were covered by the benefit terms:

Inactive employees receiving benefits	3
Active employees	137

Actuarial Methods and Assumptions

Total OPEB liability in the December 31, 2020 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement.

Valuation date:	Actuarially determined contributions are calculated as of December 31 after the valuation date.
Actuarial cost method:	Entry age normal
Amortization method:	Level dollar over 30 years from January 1, 2018
Remaining amortization period	30
Asset valuation method:	Market value
Assumed inflation:	3.00% per year
Assumed single discount rate:	3.26% per year
Mortality:	RP 2014 Table

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include types of benefits in force at the valuation date and the pattern of sharing benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The total OPEB liability is being amortized at a level dollar amount over 30 years with a remaining amortization period of 30 years at December 31, 2020.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

Notes to Financial Statements

December 31, 2020

11. **OPEB (cont.)**

The target allocation and long-term expected rate of return for the major class is shown in the table below.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	100%	0.43%
Assumed inflation		<u>1.93%</u>
Net expected return		<u>2.36%</u>

Discount Rate

The single discount rate used to measure the total OPEB liability was 1.93% as of December 31, 2020.

Projected benefit payment are required to be discounted to actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on OPEB investments (to the extent that the program’s fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the program’s net position with contributions associated with the current plan member and the long-term expected rate of return are not sufficient to pay benefits).

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

Regarding the sensitivity of the net OPEB liability to changes in the single discount rate, the following presents the plan’s liability calculated using a single discount rate, as well as what the plan’s liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher.

	1% Decrease <u>0.93%</u>	Current Single Rate Assumed <u>1.93%</u>	1% Increase to <u>2.93%</u>
Total OPEB liability	\$ 961,117	\$ 894,564	\$ 831,633
Net OPEB liability	961,117	894,564	831,633

Notes to Financial Statements

December 31, 2020

11. **OPEB (cont.)**

The following represents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare costs trend rates ("HCCTR") that were 1% lower or 1% higher.

	1% Decrease to HCCTR	Assumed HCCTR	1% Increase to HCCTR
Total OPEB liability	\$ 787,762	\$ 894,564	\$ 1,024,296
Net OPEB liability	787,762	894,564	1,024,296

Net OPEB Liability

The City's net OPEB liability was measured at January 1, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The components of the net OPEB liability were as follows:

Total OPEB liability	\$ 894,564
Plan net position	<u>-</u>
Net OPEB liability	<u>\$ 894,564</u>
Plan net position as a % of total OPEB liability	0.00%

Notes to Financial Statements

December 31, 2020

11. OPEB (cont.)*Changes in Net OPEB Liability*

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance - December 31, 2019	\$ 692,056	\$ -	\$ 692,056
Changes for the year			
Service cost	39,812	-	39,812
Interest	23,441	-	23,441
Differences between expected and actual	82,069	-	82,069
Employer contributions	-	25,663	(25,663)
Benefits and refunds	(25,663)	(25,663)	-
Changes of assumptions	<u>82,849</u>	<u>-</u>	<u>82,849</u>
Net changes for the year	<u>202,508</u>	<u>-</u>	<u>202,508</u>
Balance - December 31, 2020	<u>\$ 894,564</u>	<u>\$ -</u>	<u>\$ 894,564</u>

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2020, the City recognized OPEB expense of \$63,253. At December 31, 2020, the City reported outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 75,230	\$ 43,268
Changes of assumptions	<u>91,910</u>	<u>17,607</u>
Total	<u>\$ 167,140</u>	<u>\$ 60,875</u>

Notes to Financial Statements

December 31, 2020

11. **OPEB (cont.)**

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

2021	\$ 8,575
2022	8,575
2023	8,575
2024	8,575
2025	8,575
Thereafter	<u>63,390</u>
Total	<u>\$ 106,265</u>

Discretely Presented Component Unit

The Airport does not offer postemployment benefits other than pensions.

12. **Contingent Liabilities***Litigation*

In the course of business, the City, its agencies and its employees are defendants in legal proceedings including but not limited to claims against the City for property damage, personal injury, personnel and contract matters, and alleged violations of state and federal laws. For certain cases, it is the opinion of management that the disposition or resolution of such claims and lawsuits will not have a material adverse effect on the financial position, changes in the financial position, or cash flows of the City.

The City is a member of the Municipal League Defense Program, which provides coverage for legal defense, expenses, and damages in suits against City officials, and employees and civil rights suits against the municipal government. The program only pays judgments for actual damages (not punitive damages) imposed on municipal governments and employees. The maximum coverage of any one loss cannot exceed 25% of the program's funded reserves at the time the lawsuit was filed, or the judgment becomes final, or \$1 million, whichever is less.

The City is represented in all other actions by the City Attorney. The City appropriates funds as necessary to meet settlements and awards. The City accrues a liability when it is incurred and when the contingency is probable and reasonably estimable.

Contingencies

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The City believes any liability for reimbursement, which may arise as a result of audits of grant funds, would not be material.

Notes to Financial Statements

December 31, 2020

13. Pledged Revenues

The City's pledged revenues are as follows:

Debt	Revenue Pledged	Total Pledged Revenue	Portion of Pledged Revenue Stream Paid	Percentage Portion of Pledged Revenue Stream	Remaining Principal, Interest, and Fees	Period Revenue Will Not Be Available for Other Purposes
Governmental activities						
Sales and Use Tax Bonds Series 2012	1 Cent City Sales Tax	\$ 40,404,310	\$ 2,107,640	5.20%	\$ 24,427,450	Until 2037
Business-type activities						
Revolving Loan Fund #00647-CWRLF-L	1 Cent City Sales Tax	\$ 21,700,626	\$ 11,628,040	53.60%	\$ -	N/A
Revolving Loan Fund #00897-CWRLF-L	1 Cent City Sales Tax	15,744,667	861,878	5.50%	12,425,120	Until 2036
Revolving Loan Fund #00950-CWRLF-L	1 Cent City Sales Tax	11,350,567	27,080	0.20%	1,093,518	Until 2038
					\$ 13,518,638	

14. Fund Balance Reporting

Fund balances are composed of the following:

	General Fund	Street Fund	2012 Parks and Recreation Fund	2012 Operations and Maintenance Fund	Nonmajor Governmental Funds	Total
Fund balances						
Nonspendable						
Prepaid expenses	\$ 26,216	\$ 5,036	\$ -	\$ -	\$ -	\$ 31,252
Spendable						
Restricted						
Capital outlay and debt service	-	945,720	1,527,101	270,563	-	2,743,384
Court services	-	-	-	-	204,573	204,573
Act 833	-	-	-	-	162,006	162,006
Fire services	-	-	-	-	163,472	163,472
Grants	149,901	-	-	-	-	149,901
Advertising and promotion	-	-	-	-	49,915	49,915
Contributions	21,124	-	-	-	-	21,124
Community Center	-	-	-	-	523,033	523,033
Committed						
Property taxes	73,907	23,327	-	-	-	97,234
Sales tax	167,784	-	185,476	185,476	-	538,736
Unassigned						
General Fund	36,513	-	-	-	-	36,513
Total fund balances	\$ 475,445	\$ 974,083	\$ 1,712,577	\$ 456,039	\$ 1,102,999	\$ 4,721,143

Notes to Financial Statements**December 31, 2020****15. Recent Accounting Pronouncements**

GASB Statement No. 83, "Certain Asset Retirement Obligations." The objective of this statement is to address issues in accounting and financial reporting for certain asset retirement obligations ("ARO"), including establishing criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO. The statement is effective for periods beginning after June 15, 2020. Earlier application is encouraged. The adoption of GASB Statement No. 83 did not have a material effect on the City's financial statements.

GASB Statement No. 84, "Fiduciary Activities." The statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting. The statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities. The statement is effective for periods beginning after December 15, 2020. Earlier application is encouraged. The adoption of GASB Statement No. 84 is not expected to have a material effect on the City's financial statements.

GASB Statement No. 87, "Leases." The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the 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. The statement is effective for periods beginning after December 15, 2022. Earlier application is encouraged. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 88, "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements." This statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for periods beginning after June 15, 2020. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest costs incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement supersedes paragraphs 5 through 22 of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement is effective for periods beginning after December 15, 2021. The requirements of this statement should be applied prospectively. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

Notes to Financial Statements**December 31, 2020****15. Recent Accounting Pronouncements (cont.)**

GASB Statement No. 92, “Omnibus 2020.” The objectives of this statement are to enhance comparability in accounting and financing reporting and to improve the consistency of authoritative literatures by addressing practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues, financial reporting for pensions and other postemployment benefits, fair value measurements and derivative instruments. This statement is effective for periods beginning after July 15, 2022. Earlier application is encouraged. The City has not yet determined the potential impact, if any, this statement could have on its financial statements.

GASB Statement No. 93, “Replacement of Interbank Offered Rates.” This statement will enhance comparability of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this statement are effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged. The City has not determined the impact, if any, that this statement could have on its financial statements.

GASB Statement No. 95, “Postponement of the Effective Dates of Certain Authoritative Guidance.” This statement will provide temporary relief to governments and other stakeholders in light of the Coronavirus Disease 2019 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The effective dates of certain provisions are postponed by one year and others are pushed back by 18 months. The City will follow new implementation dates for adoption of the upcoming standards.

GASB Statement No. 96, “Subscription-Based information Technology Arrangements.” This statement provides guidance on the accounting and financial reporting for a subscription-based information technology arrangement (“SBITA”) for government end users. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The City has not determined the impact, if any, that this statement could have on its financial statements.

GASB Statement No. 99, “Omnibus 2022.” The objectives of this statement are to enhance comparability in accounting and financial reporting 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. The requirements of this statement are effective for reporting periods beginning after June 15, 2022 with exceptions. The City has not determined the impact, if any, that this statement could have on its financial statements.

Notes to Financial Statements**December 31, 2020****15. Recent Accounting Pronouncements (cont.)**

GASB Statement No. 100, “Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62.” The primary object of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023 with earlier application encouraged. The City has not determined the impact, if any, that this statement could have on its financial statements.

GASB Statement No. 101, “Compensated Absences.” The objective of this statement is to better meet the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously requirement disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023 with earlier application encouraged. The City has not determined the impact, if any, that this statement could have on its financial statements.

16. Subsequent Events Evaluation Date

The City evaluated the events and transactions subsequent to its December 31, 2020 financial statement date and determined there were no significant events to report through March 13, 2023, which is the date the City issued its financial statements.

CITY OF BATESVILLE, ARKANSAS

Changes in the Firemen's Pension and Relief Fund Net Pension Liability

For the Years Ended December 31, 2020 – December 31, 2013

Fiscal year ending December 31,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total pension liability								
Interest	\$ 111,689	\$ 123,363	\$ 116,682	\$ 135,921	\$ 138,524	\$ 170,815	\$ 186,309	\$ 190,790
Differences between expected and actual experience	58,648	53,450	76,486	(12,303)	47,117	(268,059)	35,768	28,976
Assumption changes	(431,877)	102,283	(132,306)	184,322	(18,917)	231,005	213,356	-
Benefit payments	<u>(284,168)</u>	<u>(284,368)</u>	<u>(284,368)</u>	<u>(285,868)</u>	<u>(293,368)</u>	<u>(297,269)</u>	<u>(308,972)</u>	<u>(309,830)</u>
Net change in total pension liabilities	(545,708)	(5,272)	(223,506)	22,072	(126,644)	(163,508)	126,461	(90,064)
Total pension liability - beginning	<u>3,510,260</u>	<u>3,515,532</u>	<u>3,739,038</u>	<u>3,716,966</u>	<u>3,843,610</u>	<u>4,007,118</u>	<u>3,880,657</u>	<u>3,970,721</u>
Total pension liability - ending	<u>\$ 2,964,552</u>	<u>\$ 3,510,260</u>	<u>\$ 3,515,532</u>	<u>\$ 3,739,038</u>	<u>\$ 3,716,966</u>	<u>\$ 3,843,610</u>	<u>\$ 4,007,118</u>	<u>\$ 3,880,657</u>
Plan fiduciary net position								
Contributions								
Employer	\$ 266,358	\$ 203,883	\$ 114,176	\$ 106,594	\$ 99,879	\$ 103,388	\$ 117,423	\$ 89,506
Net investment income (expense)	(2,885)	448,424	(95,234)	12,636	(7,512)	(40,312)	(81,732)	174,133
Benefit payments	(284,168)	(284,368)	(284,368)	(285,868)	(293,368)	(297,269)	(308,972)	(309,830)
Other	<u>-</u>	<u>(372,408)</u>	<u>-</u>	<u>1,540</u>	<u>-</u>	<u>1,400</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	(20,695)	(4,469)	(265,426)	(165,098)	(201,001)	(232,793)	(273,281)	(46,191)
Plan fiduciary net position - beginning	<u>370,529</u>	<u>374,998</u>	<u>640,424</u>	<u>805,522</u>	<u>1,006,523</u>	<u>1,239,316</u>	<u>1,512,597</u>	<u>1,558,788</u>
Plan fiduciary net position - ending	<u>\$ 349,834</u>	<u>\$ 370,529</u>	<u>\$ 374,998</u>	<u>\$ 640,424</u>	<u>\$ 805,522</u>	<u>\$ 1,006,523</u>	<u>\$ 1,239,316</u>	<u>\$ 1,512,597</u>
Plan fiduciary net position as a percentage of total pension liability	11.80%	10.56%	10.67%	17.13%	21.67%	26.19%	30.93%	38.98%

Information in this schedule has been determined as of the measurement date (December 31, 2020) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor's report.

CITY OF BATESVILLE, ARKANSAS

Firemen's Pension and Relief Fund Net Pension Liability

For the Years Ended December 31, 2020 – December 31, 2011

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total pension liability	\$ 2,964,552	\$ 3,510,260	\$ 3,515,532	\$ 3,739,038	\$ 3,716,966	\$ 3,843,610	\$ 4,007,118	\$ 3,880,657	\$ 3,970,721	\$ 4,065,475
Plan fiduciary net position	<u>349,834</u>	<u>370,529</u>	<u>374,998</u>	<u>640,424</u>	<u>805,522</u>	<u>1,006,523</u>	<u>1,239,316</u>	<u>1,512,597</u>	<u>1,558,788</u>	<u>1,654,958</u>
Net pension liability	<u>\$ 2,614,718</u>	<u>\$ 3,139,731</u>	<u>\$ 3,140,534</u>	<u>\$ 3,098,614</u>	<u>\$ 2,911,444</u>	<u>\$ 2,837,087</u>	<u>\$ 2,767,802</u>	<u>\$ 2,368,060</u>	<u>\$ 2,411,933</u>	<u>\$ 2,410,517</u>
Discount rate	3.32%	3.32%	3.66%	3.24%	3.80%	3.75%	4.43%	5.00%	5.00%	5.00%
Plan net position as a percentage of the total pension liability	11.80%	10.56%	10.67%	17.13%	21.67%	26.19%	30.93%	38.98%	39.26%	40.71%
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net pension liability as a percentage of covered employee payroll	N/A									

Information in this schedule has been determined as of the measurement date (December 31, 2020) of the City's net pension liability.

See independent auditor's report.

CITY OF BATESVILLE, ARKANSAS

Contributions for Firemen’s Pension and Relief Fund

For the Years Ended December 31, 2020 – December 31, 2012

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined contribution	\$ 604,581	\$ 623,099	\$ 579,239	\$ 573,616	\$ 547,837	\$ 570,509	\$ 533,939	\$ 543,832	\$ 543,512
Actual contribution	<u>(266,358)</u>	<u>(203,883)</u>	<u>(114,176)</u>	<u>(106,594)</u>	<u>(99,879)</u>	<u>(103,388)</u>	<u>(117,423)</u>	<u>(89,506)</u>	<u>(87,398)</u>
Contribution deficiency	<u>\$ 338,223</u>	<u>\$ 419,216</u>	<u>\$ 465,063</u>	<u>\$ 467,022</u>	<u>\$ 447,958</u>	<u>\$ 467,121</u>	<u>\$ 416,516</u>	<u>\$ 454,326</u>	<u>\$ 456,114</u>
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	N/A								

Information in this schedule has been determined as of the measurement date (December 31, 2020) of the City’s net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor’s report.

CITY OF BATESVILLE, ARKANSAS

Investment Returns for Firemen’s Pension and Relief Fund

For the Years Ended December 31, 2020 – December 31, 2011

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual money-weighted rate of return, net of investment expense	(0.80)%	22.71%	(17.15)%	1.76%	(0.83)%	(3.53)%	(5.77)%	12.02%	8.21%	(3.05)%

Notes to schedule:

The amounts shown are net of investment expenses.

Information in this schedule has been determined as of the measurement date (December 31, 2020) of the City’s net pension liability.

See independent auditor’s report.

CITY OF BATESVILLE, ARKANSAS

Schedule of the City's Proportionate Share of the Net Pension Liability – LOPFI

For the Years Ended December 31, 2020 – December 31, 2015

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.00000%	0.80260%	0.70732%	0.62482%	0.48483%	0.38968%
City's proportionate share of the net pension liability	\$ 3,234,823	\$ 3,969,873	\$ 3,108,451	\$ 2,410,672	\$ 1,472,353	\$ 676,908
City's covered-employee payroll	\$ 1,475,708	\$ 1,144,028	\$ 1,495,181	\$ 1,336,609	\$ 1,319,706	\$ 542,921
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	46%	29%	48%	55%	90%	80%
Plan fiduciary net position as a percentage of the total pension liability	73.03%	65.84%	71.17%	72.46%	72.41%	78.42%

Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor's report.

CITY OF BATESVILLE, ARKANSAS

Schedule of the City's Contributions – LOPFI

For the Years Ended December 31, 2020 – December 31, 2015

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 352,478	\$ 345,684	\$ 314,415	\$ 279,875	\$ 174,902	\$ 109,636
Contributions in relation to the contractually required contribution	<u>(352,478)</u>	<u>(345,684)</u>	<u>(314,415)</u>	<u>(279,875)</u>	<u>(174,902)</u>	<u>(109,636)</u>
Contribution deficiency	<u>\$ -</u>					
City's covered-employee payroll	\$ 1,475,708	\$ 1,144,028	\$ 1,495,181	\$ 1,336,609	\$ 1,319,706	\$ 542,921
Contributions as a percentage of covered-employee payroll	23.89%	30.22%	21.03%	20.94%	13.25%	20.19%

Information in this schedule has been determined as of the measurement date (December 31 of the year prior to the most recent fiscal year-end) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor's report.

CITY OF BATESVILLE, ARKANSAS

Schedule of the City's and District's Proportionate Share of the Net Pension Liability – APERS

For the Years Ended December 31, 2020 – December 31, 2014

	City of Batesville						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.10546409%	0.98162333%	0.09305836%	0.08918530%	0.09523706%	0.09561641%	0.08679777%
City's proportionate share of the net pension liability	\$ 3,020,053	\$ 2,368,194	\$ 2,052,807	\$ 2,304,673	\$ 2,277,450	\$ 1,760,999	\$ 1,231,584
City's covered-employee payroll	\$ 1,875,810	\$ 1,937,366	\$ 1,706,662	\$ 1,458,169	\$ 1,418,665	\$ 1,637,433	\$ 1,495,425
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	62%	82%	83%	63%	62%	93%	121%
	Batesville Waterworks and Batesville and Sewer Improvement District						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.09205154%	0.09480934%	0.09329326%	0.09405738%	0.08908812%	0.08597111%	0.08605617%
District's proportionate share of the net pension liability	\$ 2,635,974	\$ 2,287,303	\$ 2,057,989	\$ 2,430,575	\$ 2,130,407	\$ 1,583,359	\$ 1,221,062
District's covered-employee payroll	\$ 1,889,804	\$ 1,820,369	\$ 1,785,464	\$ 1,491,484	\$ 1,597,214	\$ 1,572,431	\$ 1,513,472
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	72%	80%	87%	61%	75%	99%	124%
Plan fiduciary net position as a percentage of the total pension liability	75%	0%	80%	80%	76%	80%	84%

Information in this schedule has been determined as of the measurement date (June 30, 2018) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor's report.

CITY OF BATESVILLE, ARKANSAS

Schedule of the City's and District's Contributions – APERS

For the Years Ended December 31, 2020 – December 31, 2014

	City of Batesville						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 315,253	\$ 287,783	\$ 257,104	\$ 233,072	\$ 250,202	\$ 250,399	\$ 228,348
Contributions in relation to the contractually required contribution	<u>(315,253)</u>	<u>(287,783)</u>	<u>(257,104)</u>	<u>(233,072)</u>	<u>(250,202)</u>	<u>(250,399)</u>	<u>(228,348)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,875,810	\$ 1,937,366	\$ 1,706,662	\$ 1,458,169	\$ 1,418,665	\$ 1,637,433	\$ 1,495,425
Contributions as a percentage of covered-employee payroll	16.81%	14.85%	15.06%	15.98%	17.64%	15.29%	15.27%
	Batesville Waterworks and Batesville and Sewer Improvement District						
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 275,160	\$ 277,953	\$ 257,753	\$ 245,804	\$ 234,048	\$ 225,140	\$ 226,397
Contributions in relation to the contractually required contribution	<u>(275,160)</u>	<u>(277,953)</u>	<u>(257,753)</u>	<u>(245,804)</u>	<u>(234,048)</u>	<u>(225,140)</u>	<u>(226,397)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,889,804	\$ 1,820,369	\$ 1,785,464	\$ 1,491,484	\$ 1,597,214	\$ 1,572,431	\$ 1,513,472
Contributions as a percentage of covered-employee payroll	14.56%	15.27%	14.44%	16.48%	14.65%	14.32%	14.96%

Information in this schedule has been determined as of the measurement date (June 30, 2018) of the City's net pension liability.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

See independent auditor's report.

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

For the Years Ended December 31, 2020 – December 31, 2018

Fiscal year ending December 31,	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service cost	\$ 39,812	\$ 37,348	\$ 42,088
Interest	23,441	24,011	22,206
Difference between actual and expected expenditures	82,069	-	(57,692)
Assumption changes	82,849	19,157	(23,475)
Benefit payments	<u>(25,663)</u>	<u>(21,486)</u>	<u>(21,486)</u>
Net change in total pension liabilities	202,508	59,030	(38,359)
Total OPEB liability - beginning	<u>692,056</u>	<u>633,026</u>	<u>671,385</u>
Total OPEB liability - ending	<u>\$ 894,564</u>	<u>\$ 692,056</u>	<u>\$ 633,026</u>
Plan fiduciary net position			
Contributions			
Employer	\$ 25,663	\$ 21,486	\$ 21,486
Benefit payments	<u>(25,663)</u>	<u>(21,486)</u>	<u>(21,486)</u>
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position - beginning	<u>-</u>	<u>-</u>	<u>-</u>
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Plan fiduciary net position as a percentage of total pension liability	0.00%	0.00%	0.00%
Covered employee payroll	\$ -	\$ -	\$ -
Net OPEB liability as a percentage of covered employee payroll	N/A	N/A	N/A

See independent auditor's report.

Schedule of the City's Contributions – OPEB

For the Years Ended December 31, 2020 – December 31, 2018

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 75,741	\$ 71,758	\$ 76,518
Contributions in relation to the contractually required contribution	<u>25,663</u>	<u>21,486</u>	<u>21,486</u>
Contribution deficiency	<u>\$ 50,078</u>	<u>\$ 50,272</u>	<u>\$ 55,032</u>
City's covered-employee payroll	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A

See independent auditor's report.

Schedule of the City's Investment Returns – OPEB**For the Years Ended December 31, 2020 – December 31, 2011**Years Ended December 31,

2020	0%
2019	0%
2018	0%
2017	0%
2016	N/A
2015	N/A
2014	N/A
2013	N/A
2012	N/A
2011	N/A

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the City will only present available information.

**Budgetary Comparison Schedule
General Fund**

For the Year Ended December 31, 2020

	Original <u>Budget</u>	Final <u>Budget</u>	Actual GAAP <u>Basis</u>	Adjustments Budget <u>Basis</u>	Actual Budget <u>Basis</u>	Variance with Final <u>Budget</u>
Revenues						
Taxes	\$ 3,135,376	\$ 3,135,376	\$ 3,506,115	\$ 27,444	\$ 3,533,559	\$ 398,183
Intergovernmental	294,800	294,800	272,031	1,638	273,669	(21,131)
Grants	406,000	406,000	529,065	-	529,065	123,065
Charges for services	2,314,700	2,314,700	2,189,769	-	2,189,769	(124,931)
Fines and forfeitures	10,000	10,000	4,422	251	4,673	(5,327)
Licenses and permits	87,900	87,900	66,716	-	66,716	(21,184)
Investment income	4,700	4,700	6,578	-	6,578	1,878
Miscellaneous	583,811	583,811	250,716	(2,051)	248,665	(335,146)
Total revenues	<u>6,837,287</u>	<u>6,837,287</u>	<u>6,825,412</u>	<u>27,282</u>	<u>6,852,694</u>	<u>15,407</u>
Expenditures						
Current						
General government	1,338,330	1,338,330	1,268,734	(64,042)	1,204,692	(133,638)
Public safety	2,248,415	2,248,415	2,100,424	-	2,100,424	(147,991)
Sanitation	1,198,233	1,198,233	1,131,797	-	1,131,797	(66,436)
Recreation and culture	1,706,277	1,706,277	1,471,592	-	1,471,592	(234,685)
Cemetery	609,419	609,419	600,369	-	600,369	(9,050)
Debt service	376,982	376,982	190,048	-	190,048	(186,934)
Capital outlay	75,850	75,850	573,650	(483,327)	90,323	14,473
Total expenditures	<u>7,553,506</u>	<u>7,553,506</u>	<u>7,336,614</u>	<u>(547,369)</u>	<u>6,789,245</u>	<u>(764,261)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(716,219)</u>	<u>(716,219)</u>	<u>(511,202)</u>	<u>574,651</u>	<u>63,449</u>	<u>779,668</u>
Other financing sources						
Proceeds from sale of capital assets	218,490	218,490	198,985	-	198,985	(19,505)
Capital leases	-	-	483,327	(483,327)	-	-
Transfers in (out)	250,000	250,000	236,000	-	236,000	(14,000)
Total other financing sources	<u>468,490</u>	<u>468,490</u>	<u>918,312</u>	<u>(483,327)</u>	<u>434,985</u>	<u>(33,505)</u>
Net changes in fund balances	<u>\$ (247,729)</u>	<u>\$ (247,729)</u>	<u>407,110</u>	<u>91,324</u>	<u>498,434</u>	<u>\$ 746,163</u>
Fund balances - beginning of year			<u>68,335</u>	<u>(186,034)</u>	<u>(117,699)</u>	
Fund balances - end of year			<u>\$ 475,445</u>	<u>\$ (94,710)</u>	<u>\$ 380,735</u>	

See independent auditor's report.

**Budgetary Comparison Schedule
Special Revenue Fund (Street Fund)**

For the Year Ended December 31, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Adjustments Budget Basis</u>	<u>Actual Budget Basis</u>	<u>Variance with Final Budget</u>
Revenues						
Taxes	\$ 260,000	\$ 260,000	\$ 251,765	\$ 22,406	\$ 274,171	\$ 14,171
Intergovernmental	705,000	705,000	771,300	2,185	773,485	68,485
Investment income	3,200	3,200	6,984	-	6,984	3,784
Miscellaneous	<u>7,250</u>	<u>7,250</u>	<u>1,731</u>	<u>-</u>	<u>1,731</u>	<u>(5,519)</u>
Total revenues	<u>975,450</u>	<u>975,450</u>	<u>1,031,780</u>	<u>24,591</u>	<u>1,056,371</u>	<u>80,921</u>
Expenditures						
Current						
Highways and streets	970,695	970,695	863,954	(7,329)	856,625	(114,070)
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,000)</u>
Total expenditures	<u>972,695</u>	<u>972,695</u>	<u>863,954</u>	<u>(7,329)</u>	<u>856,625</u>	<u>(116,070)</u>
Net changes in fund balances	<u>\$ 2,755</u>	<u>\$ 2,755</u>	167,826	31,920	199,746	<u>\$ 196,991</u>
Fund balances - beginning of year			<u>806,257</u>	<u>(112,756)</u>	<u>693,501</u>	
Fund balances - end of year			<u>\$ 974,083</u>	<u>\$ (80,836)</u>	<u>\$ 893,247</u>	

See independent auditor's report.

Notes to Required Supplementary Information**December 31, 2020****Budgetary Data**

The City Council adopts an annual budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and the Special Revenue Funds. All unencumbered appropriations lapse at fiscal year-end, except for certain appropriations for capital outlay in the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and the Special Revenue Funds are prepared on the modified accrual basis except for encumbrances, which are treated as budgeted expenditures. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements, and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. Budgetary level of control is exercised at the departmental level. The City administrator is authorized to transfer budgeted amounts within departments; however, any revisions that alter total expenditures of the departments must be approved by the City Council.

The statements comparing budget and actual amounts for the General Fund and Street Fund include adjustments to those budgetary bases for the difference noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund and the Street Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results.

The City's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recognized. Under the budgetary basis, revenues are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when cash is received. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

Combining Balance Sheet – Nonmajor Governmental Funds

December 31, 2020

<u>Assets</u>	Court Automation Fund	Act 833 Fund	County Fire Sales Tax Fund	Community Center Fund	Advertising and Promotion Fund	Total Nonmajor Governmental Funds
Restricted						
Cash and cash equivalents	\$ 204,445	\$ 162,007	\$ 153,124	\$ 523,033	\$ 42,173	\$ 1,084,782
Taxes receivable	-	-	-	-	7,742	7,742
Other receivables	<u>1,523</u>	<u>-</u>	<u>10,347</u>	<u>-</u>	<u>-</u>	<u>11,870</u>
Total assets	<u>\$ 205,968</u>	<u>\$ 162,007</u>	<u>\$ 163,471</u>	<u>\$ 523,033</u>	<u>\$ 49,915</u>	<u>\$ 1,104,394</u>
 <u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 1,395	\$ -	\$ -	\$ -	\$ -	\$ 1,395
Fund balances						
Restricted	<u>204,573</u>	<u>162,007</u>	<u>163,471</u>	<u>523,033</u>	<u>49,915</u>	<u>1,102,999</u>
Total liabilities and fund balances	<u>\$ 205,968</u>	<u>\$ 162,007</u>	<u>\$ 163,471</u>	<u>\$ 523,033</u>	<u>\$ 49,915</u>	<u>\$ 1,104,394</u>

See independent auditor's report.

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Nonmajor Governmental Funds**

For the Year Ended December 31, 2020

	Court Automation <u>Fund</u>	Act 833 <u>Fund</u>	County Fire Sales Tax <u>Fund</u>	Community Center <u>Fund</u>	Advertising and Promotion <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
Revenues						
Taxes	\$ -	\$ -	\$ 108,198	\$ -	\$ 109,298	\$ 217,496
Intergovernmental	-	87,129	-	-	-	87,129
Charges for services	-	-	-	77,775	-	77,775
Fines and forfeitures	23,373	-	-	-	-	23,373
Investment income	1,967	1,210	2,060	3,740	246	9,223
Miscellaneous income	-	-	18,000	-	-	18,000
Total revenues	<u>25,340</u>	<u>88,339</u>	<u>128,258</u>	<u>81,515</u>	<u>109,544</u>	<u>432,996</u>
Expenditures						
Current						
Public safety	15,482	27,262	95,539	-	-	138,283
Recreation and culture	-	-	-	-	114,897	114,897
Capital outlay	-	-	162,000	-	-	162,000
Total expenditures	<u>15,482</u>	<u>27,262</u>	<u>257,539</u>	<u>-</u>	<u>114,897</u>	<u>415,180</u>
Excess (deficiency) of revenues over (under) expenditures	9,858	61,077	(129,281)	81,515	(5,353)	17,816
Other financing sources						
Transfers in	-	-	-	75,000	-	75,000
Net changes in fund balances	9,858	61,077	(129,281)	156,515	(5,353)	92,816
Fund balances - beginning of year	<u>194,715</u>	<u>100,930</u>	<u>292,752</u>	<u>366,518</u>	<u>55,268</u>	<u>1,010,183</u>
Fund balances - end of year	<u>\$ 204,573</u>	<u>\$ 162,007</u>	<u>\$ 163,471</u>	<u>\$ 523,033</u>	<u>\$ 49,915</u>	<u>\$ 1,102,999</u>

See independent auditor's report.

**Combining Statement of Revenues, Expenditures, and Changes in Net Position –
Major Enterprise Fund – Utilities**

For the Year Ended December 31, 2020

	Water Fund	Wastewater Fund	Utility Capital Fund	Sales Tax Fund	Total
Operating revenue	\$ 5,255,710	\$ 5,570,472	\$ 3,230	\$ -	\$ 10,829,412
Operating expenses before depreciation					
Personnel costs	1,349,392	1,559,253	-	-	2,908,645
City administrative cost	63,564	16,304	-	-	79,868
Chemicals	163,211	57,949	-	-	221,160
Office supplies and expenses	28,330	26,854	-	-	55,184
Repairs and maintenance	284,165	505,188	-	-	789,353
Telephone and utilities	343,428	508,472	-	-	851,900
Operating supplies	9,787	31,655	-	-	41,442
Machine and truck expense	36,262	50,313	-	-	86,575
Professional fees	54,885	63,796	-	-	118,681
Insurance	40,839	37,796	-	-	78,635
Rent	7,956	7,956	-	-	15,912
Contract laboratory	10,822	28,703	-	-	39,525
Uniforms	5,823	7,550	-	-	13,373
Miscellaneous and other	31,656	25,890	36,846	20,667	115,059
Process and plant water	217,798	66,655	-	-	284,453
Billing and meter reading expenses	31,375	20,118	-	-	51,493
State water service fee	20,924	13,247	-	-	34,171
Training	1,689	806	-	-	2,495
Total operating expenses before depreciation	<u>2,701,906</u>	<u>3,028,505</u>	<u>36,846</u>	<u>20,667</u>	<u>5,787,924</u>
Operating income (loss) before depreciation	2,553,804	2,541,967	(33,616)	(20,667)	5,041,488
Depreciation	<u>545,514</u>	<u>293,099</u>	<u>836,076</u>	<u>2,231,826</u>	<u>3,906,515</u>
Operating income (loss)	<u>2,008,290</u>	<u>2,248,868</u>	<u>(869,692)</u>	<u>(2,252,493)</u>	<u>1,134,973</u>
Nonoperating revenues (expenses)					
Investment income	56,440	61,937	65,466	264,972	448,815
Sales tax revenue	-	-	-	4,326,516	4,326,516
Interest expense	-	-	(14,979)	(336,138)	(351,117)
Gain (loss) on sale of assets	247	(11,237)	-	-	(10,990)
Total nonoperating revenues	<u>56,687</u>	<u>50,700</u>	<u>50,487</u>	<u>4,255,350</u>	<u>4,413,224</u>
Income (loss) before operating transfers	2,064,977	2,299,568	(819,205)	2,002,857	5,548,197
Transfers in (out)	<u>(1,459,300)</u>	<u>(1,156,677)</u>	<u>2,379,977</u>	<u>-</u>	<u>(236,000)</u>
Changes in net position	<u>\$ 605,677</u>	<u>\$ 1,142,891</u>	<u>\$ 1,560,772</u>	<u>\$ 2,002,857</u>	5,312,197
Net position - beginning of year					<u>80,491,520</u>
Net position - end of year					<u>\$ 85,803,717</u>

See independent auditor's report.

Sales and Use Tax Bonds Series 2012

December 31, 2020

<u>Maturity Year</u>	<u>Interest Rate Ranges</u>	<u>Interest Payments</u>	<u>Principal Payments</u>	<u>Total Payments</u>
2021	3.00%	\$ 690,840	\$ 865,000	\$ 1,555,840
2022	3.00%	664,890	890,000	1,554,890
2023	3.00%	638,190	915,000	1,553,190
2024	3.125%	610,740	945,000	1,555,740
2025	3.20%	581,208	970,000	1,551,208
2026	4.625%	550,168	1,005,000	1,555,168
2027	4.625%	503,688	1,050,000	1,553,688
2028	4.625%	455,126	1,100,000	1,555,126
2029	4.625%	404,250	1,150,000	1,554,250
2030	3.50%	351,062	1,205,000	1,556,062
2031	3.75%	308,888	1,245,000	1,553,888
2032	4.00%	262,200	1,290,000	1,552,200
2033	4.00%	210,600	1,345,000	1,555,600
2034	4.00%	156,800	1,395,000	1,551,800
2035	4.00%	101,000	1,455,000	1,556,000
2036	4.00%	42,800	1,070,000	1,112,800
		<u>\$ 6,532,450</u>	<u>\$ 17,895,000</u>	<u>\$ 24,427,450</u>

Paying Agent: Citizens State Bank
Batesville, Arkansas

Principal Payment Date: September 1

Interest Payment Dates: March 1
September 1

**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***

Honorable Mayor and City Council
City of Batesville, Arkansas
Batesville, Arkansas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Arkansas as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City of Batesville, Arkansas's basic financial statements, and have issued our report thereon dated March 13, 2023.

Our report includes a reference to other auditors who audited the financial statements of the Batesville Regional Airport, which represents 100% of the assets, net position, and revenues of the aggregate discretely presented component unit, as described in our report on the City of Batesville, Arkansas's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Batesville, Arkansas'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Batesville, Arkansas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Batesville, Arkansas's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items (2020-01) and (2020-02) to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Batesville, Arkansas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Batesville, Arkansas's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures of the City of Batesville, Arkansas's response to the finding identified in our engagement and described in the accompanying schedule of findings and responses. The City of Batesville, Arkansas's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
March 13, 2023

Schedule of Findings and Responses**For the Year Ended December 31, 2020***Material Weaknesses*

2020-001:	Application of Generally Accepted Accounting Principles (“GAAP”)
Criteria:	GAAP should be properly followed for all transactions of the City of Batesville, Arkansas.
Condition:	During our audit, we noted several instances of non-GAAP practices specifically related to the reconciliation of capital assets and recognition of pension liabilities, which resulted in significant audit adjustments.
Cause:	Management is not properly recording activity related to the capital assets on a timely basis and accumulating information in order to recognize pension liabilities.
Effect or Potential Effect:	Improper financial statement presentation and disclosures.
Recommendation:	We recommend management continue to review their accounting practices to ensure GAAP is consistently applied and develop procedures to assist in the year-end close process. Management should develop procedures in which activity associated with capital assets and pensions are properly accumulated in order to properly present the activity in accordance with Governmental Accounting Standards.
2020-002:	Account Reconciliations
Criteria:	Accounts should be reconciled to the supporting documents on a monthly basis.
Condition:	During our audit, we noted several accounts such as accounts receivable and accounts payable that were not reconciled to the supporting documents or had not been adjusted for the current year activity.
Cause:	Management is not properly reconciling all accounts as part of the monthly closing process. Also, all balances from the City’s previous version of accounting software were not reconciled to the balances included in the update, therefore, as part of the software conversion, several balances were not properly carried forward.
Effect or Potential Effect:	Improper financial statement presentation.
Recommendation:	We recommend the City of Batesville, Arkansas reconcile these transactions and accounts as part of the month-end closing processes to ensure accounts are properly recorded in the general ledger.

Schedule of Findings and Responses (cont.)

For the Year Ended December 31, 2020

Responsible Official's Response:



RICK ELUMBAUGH, MAYOR
DENISE JOHNSTON, CLERK
TIMOTHY MEITZEN, ATTORNEY

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FROST, PLLC

4375 N. Vantage Drive, Suite 403

Fayetteville, AR 72703

To Whom It May Concern,

The city of Batesville has received our December 31, 2020 audit and has reviewed the schedule of findings that have been included in the audit report. The City plans to address the recommendations as follows:

The City has discussed these issues with its staff as well as its auditor. It plans to utilize its consultants to prepare more of the entries needed to be accounted for during the year end close processes. In addition, the City is investing in new lease software to better implement GASB 87 (Leases) during the upcoming year. The City and auditors plan to work more closely with other during the year, in order to ensure that the new processes are being implemented.

Respectfully,

Denise M. Johnston

Batesville City Clerk/Treasurer

Independent Auditor's Report on Compliance With Certain State Acts

Honorable Mayor and City Council
City of Batesville, Arkansas
Batesville, Arkansas

We have examined management's assertions that the City of Batesville, Arkansas complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas Statutes during the year ended December 31, 2020.

- (a) Arkansas Municipal Accounting Law of 1973, § 14-59-101 et seq.;
- (b) Arkansas District Courts and City Courts Accounting Law, § 16-10-201 et seq.;
- (c) Improvement contracts, §§ 22-9-202 – 22-9-204;
- (d) Budgets, purchases, and payments of claims, etc., § 14-58-201 et seq. and 14-58-301 et seq.;
- (e) Investment of public funds, § 19-1-501 et seq.; and
- (f) Deposit of public funds, §§ 19-8-101 – 19-8-107.

Management is responsible for the City of Batesville, Arkansas's compliance with these requirements. Our responsibility is to express an opinion on the City of Batesville, Arkansas's compliance based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Batesville, Arkansas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Batesville, Arkansas's compliance with specified requirements.

In our opinion, the City of Batesville, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2020.

This report is intended solely for the information and use of management, the City of Batesville, Arkansas's Officials and Council Members, Legislative Joint Auditing Committee, and others within the City of Batesville, Arkansas, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
March 13, 2023