

City of Heber Springs, Arkansas

Regulatory Basis Financial Statements and Other Reports

December 31, 2022

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF HEBER SPRINGS, ARKANSAS
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Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE

ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

City of Heber Springs, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

Report on the Audit of the Financial Statements

Opinions

We have audited the regulatory basis financial statements of the City of Heber Springs, Arkansas (City), which are comprised of the Balance Sheet – Regulatory Basis for the general fund, street fund, and other funds in the aggregate as of December 31, 2022, and the related Statements of Revenues, Expenses, and Changes in Fund Balances and Budget and Actual – General and Street Funds – Regulatory Basis for the year then ended, and the related notes to the financial statements.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying regulatory basis financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of the general fund, street fund, and other funds in the aggregate of the City of Heber Springs, Arkansas as of December 31, 2022; the regulatory basis revenues, expenditures, and changes in net position; and the budgetary comparisons for the general fund and street fund for the year then ended, in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412 described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the accompanying regulatory basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the general fund, street fund, and other funds in the aggregate of the City of Heber Springs, Arkansas, as of December 31, 2022, or the revenues, expenditures, and changes in net position and, where applicable, cash flows thereof for the year then ended.

Basis for Opinions

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, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements permitted by the State of Arkansas.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Emphases of Matter

As discussed in Note 1 to the financial statements, in 2022 the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the City would have included other funds under accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. However, under the regulatory basis, these funds are not required to be included as part of the reporting entity. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412, as described in Note 1, to meet the requirements permitted by the State of Arkansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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's ability to continue as a going concern for twelve 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 opinions. 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements 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'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'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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the regulatory basis financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the regulatory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the regulatory basis financial statements or to the regulatory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information listed in the table of contents is fairly stated in all material respects, in relation to the regulatory basis financial statements as a whole on the basis of accounting described in Note 1.

Other Information

Management is responsible for the other information included in the report. The other information is comprised of the schedules listed in the table of contents but does not include the regulatory basis financial statements, supplemental information, and our auditor's reports thereon. Our opinions on the regulatory basis financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the regulatory basis financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2023, on our consideration of the City'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 the testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
December 13, 2023
LOM104322

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

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

Independent Auditor's Report

City of Heber Springs, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of City of Heber Springs, Arkansas (City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's regulatory basis financial statements, and have issued our report thereon dated December 13, 2023. We issued an adverse opinion because the financial statements are prepared by the City on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the regulatory basis of accounting described in Note 1, our opinions on the general fund, street fund, and other funds in the aggregate were unmodified.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described below as item 2022-1, that we consider to be a material weakness.

2022-1 Arkansas code requires city management to maintain accurate financial records. The City's financial records contained errors that were considered material as noted below:

The General Fund financial records contained misstatements in assets, liabilities, fund balance, revenues, expenditures, and disclosures of \$211,290, \$47,775, \$242,787, \$207,118, \$49,885, and \$259,064, respectively, primarily due to the omission of accounts receivable and accounts payable.

The Other Funds in the Aggregate financial records contained misstatements for assets, liabilities, fund balance, revenues, expenditures, and disclosures of \$602,505, \$427,583, \$1,030,088, \$602,505, \$433,861, and \$1,030,088, respectively, primarily due to the omission of accounts receivable and accounts payable.

The effects of these misstatements constitute a significant control deficiency in the process of preparing financial records. City Management should implement procedures to ensure financial records are properly recorded. A similar finding was issued in the previous report.

The Treasurer concurred with the above recommendations and approved appropriate entries to the City's financial records.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the Report on Internal Control over Financial Reporting section as item 2022-1.

We also reported to management of the City in a separate letter dated December 13, 2023.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described previously. The City's response was not subjected to the other 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 described 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. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT



Timothy R. Jones, CPA, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
December 13, 2023

Arkansas

Sen. David Wallace
Senate Chair
Sen. John Payton
Senate Vice Chair



Rep. Jimmy Gazaway
House Chair
Rep. Richard Womack
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

City of Heber Springs, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

The commentary contained in this letter relates to the following officials who held office during 2022:

Mayor: Kasey Griffin
Treasurer: David Gibbs
Clerk: Nancy Hurley
Police Chief: Brin Haile

No issues came to our attention that we considered necessary to report to management.

This letter is intended solely for the information and use of the Legislative Joint Auditing Committee, the City Council (or local governing body) and City management, and other parties as required by Arkansas Code and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Timothy R. Jones".

Timothy R. Jones, CPA, CFF
Deputy Legislative Auditor

Little Rock, Arkansas
December 13, 2023

CITY OF HEBER SPRINGS, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2022

Exhibit A

	General	Street	Other Funds in the Aggregate
ASSETS			
Cash and cash equivalents	\$ 5,137,515	\$ 625,767	\$ 10,033,583
Accounts receivable	207,736	2,283	600,579
	<u>5,345,251</u>	<u>628,050</u>	<u>10,634,162</u>
TOTAL ASSETS	<u>\$ 5,345,251</u>	<u>\$ 628,050</u>	<u>\$ 10,634,162</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 35,669	\$ 60	\$ 427,583
Settlements pending			38,441
Total Liabilities	<u>35,669</u>	<u>60</u>	<u>466,024</u>
Fund Balances:			
Restricted		484,057	9,065,596
Committed			86,579
Assigned	1,559,563	143,933	1,015,963
Unassigned	3,750,019		
Total Fund Balances	<u>5,309,582</u>	<u>627,990</u>	<u>10,168,138</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,345,251</u>	<u>\$ 628,050</u>	<u>\$ 10,634,162</u>

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

CITY OF HEBER SPRINGS, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Exhibit B

	General	Street	Other Funds in the Aggregate
REVENUES			
State aid	\$ 341,463	\$ 601,680	
Federal aid	84,498		\$ 1,924,745
Property taxes	686,480	34,860	
Franchise fees	500,525		
Sales taxes	1,448,552	723	2,490,138
Fines, forfeitures, and costs	144,992		27,014
Interest	22,572	922	100,970
Local permits and fees	144,879		325,056
Sanitation fees	1,237,191		
Advertising and promotion taxes			56,180
Fuel sales			108,349
Other	249,689	8,095	135,606
TOTAL REVENUES	4,860,841	646,280	5,168,058
EXPENDITURES			
Current:			
General government	619,903		48,459
Law enforcement	725,885		1,082,074
Highways and streets	19,675	454,183	232,617
Public safety	441,795		347,750
Sanitation	1,074,698		
Recreation and culture	24,674		1,776,767
Advertising and promotion			47,506
Airport			1,310,316
Cemetery	591		1,656
Total Current	2,907,221	454,183	4,847,145
Debt Service:			
Bond principal			1,180,000
Bond interest and other charges			351,751
Financed purchase principal	45,774	31,590	
Financed purchase interest	2,598	2,559	
TOTAL EXPENDITURES	2,955,593	488,332	6,378,896

CITY OF HEBER SPRINGS, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Exhibit B

	General	Street	Other Funds in the Aggregate
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 1,905,248</u>	<u>\$ 157,948</u>	<u>\$ (1,210,838)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in			200,000
Transfers out	(200,000)		
Contribution to water department	<u>(99,375)</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>(299,375)</u>		<u>200,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,605,873	157,948	(1,010,838)
FUND BALANCES - JANUARY 1	<u>3,703,709</u>	<u>470,042</u>	<u>11,178,976</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 5,309,582</u></u>	<u><u>\$ 627,990</u></u>	<u><u>\$ 10,168,138</u></u>

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

CITY OF HEBER SPRINGS, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State aid	\$ 104,501	\$ 341,463	\$ 236,962	\$ 520,000	\$ 601,680	\$ 81,680
Federal aid	1	84,498	84,497			
Property taxes	580,000	686,480	106,480	50,000	34,860	(15,140)
Franchise fees	375,000	500,525	125,525			
Sales taxes	1,144,000	1,448,552	304,552	230	723	493
Fines, forfeitures, and costs	125,975	144,992	19,017			
Interest	10,190	22,572	12,382	300	922	622
Local permits and fees	102,250	144,879	42,629			
Sanitation fees	1,440,500	1,237,191	(203,309)			
Other	179,102	249,689	70,587	13,002	8,095	(4,907)
TOTAL REVENUES	4,061,519	4,860,841	799,322	583,532	646,280	62,748
EXPENDITURES						
Current:						
General government	655,270	619,903	35,367			
Law enforcement	784,051	725,885	58,166			
Highways and streets		19,675	(19,675)	529,156	454,183	74,973
Public safety	439,987	441,795	(1,808)			
Sanitation	1,262,481	1,074,698	187,783			
Recreation and culture		24,674	(24,674)			
Cemetery	2,150	591	1,559			
Total Current	3,143,939	2,907,221	236,718	529,156	454,183	74,973
Debt Service:						
Financed purchase principal	148,000	45,774	102,226	54,000	31,590	22,410
Financed purchase interest	6,300	2,598	3,702	4,600	2,559	2,041
TOTAL EXPENDITURES	3,298,239	2,955,593	342,646	587,756	488,332	99,424
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	763,280	1,905,248	1,141,968	(4,224)	157,948	162,172
OTHER FINANCING SOURCES (USES)						
Transfers in	154,800		(154,800)			
Transfers out		(200,000)	(200,000)			
Contribution to water department		(99,375)	(99,375)			
TOTAL OTHER FINANCING SOURCES (USES)	154,800	(299,375)	(454,175)			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	918,080	1,605,873	687,793	(4,224)	157,948	162,172
FUND BALANCES - JANUARY 1	4,206,319	3,703,709	(502,610)	473,810	470,042	(3,768)
FUND BALANCES - DECEMBER 31	\$ 5,124,399	\$ 5,309,582	\$ 185,183	\$ 469,586	\$ 627,990	\$ 158,404

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

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Heber Springs was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City. Under accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*, the following funds of the City would have been included in the reporting entity: Heber Springs Water and Sewer. However, under Arkansas's regulatory basis described below, inclusion of these funds is not required and these funds are not included in this report.

B. Basis of Presentation – Regulatory

The financial statements are presented in accordance with the regulatory basis of presentation as prescribed or permitted by Ark. Code Ann. § 10-4-412. The law requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and street fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general and street funds; notes to financial statements; and a supplemental schedule of capital assets.

The regulatory basis of presentation is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide and fund financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, separate financial statements for fiduciary fund types and other requirements for fiduciary fund types, specific procedures for the identification of major governmental funds, and applicable note disclosures. The regulatory basis of presentation does not require government-wide financial statements or the previously identified concepts.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds are recognized in the accompanying regulatory basis financial statements.

General Fund - The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Street Fund - The Street Fund (Special Revenue Fund) is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Street Fund accounts for and reports the proceeds of state highway turnback and property taxes that are restricted or committed for maintaining and constructing highways and streets.

Other Funds in the Aggregate - Other Funds in the Aggregate consist of all funds included in the financial statements except for the General and Street Funds. The following types of funds are included in this column as follows:

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. See Schedules 1 and 2 for Special Revenue Funds as reported with other funds in the aggregate.

Capital Projects Funds - The capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets. See Schedules 1 and 2 for the Capital Projects Fund as reported with other funds in the aggregate.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Regulatory (Continued)

Other Funds in the Aggregate (Continued)

Debt Service Funds – The debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. See Schedules 1 and 2 for the Debt Service Fund as reported with other funds in the aggregate.

Custodial Funds - Custodial Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). See Schedule 1 for Custodial Funds as reported with other funds in the aggregate.

C. Basis of Accounting - Regulatory

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Ark. Code Ann. § 10-4-412. This regulatory basis differs from accounting principles generally accepted in the United States of America. Revenues generally are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. However, most state aid received from the State Treasury is by state law revenue of the year in which it was received by the government. Expenditures generally are recorded when a liability is incurred. Liabilities incurred by the government on or before the end of the current period that are paid within 60 days of the end of the current period, are considered to be expenditures of the current period. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. As a result of the use of this regulatory basis of accounting, capital assets and long-term debt are not recorded in these financial statements. Pension trust funds are reported in a separate column as a part of supplementary information in order to provide users a better understanding of the entity as a whole.

The regulatory basis of accounting is not in accordance with generally accepted accounting principles (GAAP). GAAP require the following major concepts: Accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, inclusion of the net pension liability in the financial statements, and applicable note disclosures. The regulatory basis of accounting does not require the previously identified concepts.

In 2022, the City implemented Governmental Accounting Standards Board Statement No. 87, Leases. The significant/material effect on the Regulatory Basis of Accounting in the current period is that certain items included in debt service in the previous period are included in the expenditure/function code of the applicable opinion unit.

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand, savings, and money market accounts.

Settlements Pending

Settlements pending are considered fines, forfeitures, costs, payroll withholdings, and electronic fund transfers that have not been transferred to the appropriate entities.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Balances (Continued)

Fund Balance Classifications

1. Restricted fund balance - amounts that are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
2. Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (passage of an ordinance).
3. Assigned fund balance - amounts that are constrained by the City Council's intent to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. This classification may also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

E. Property Taxes

A lien attaches to the real property in January and on personal property in June of each year. Property taxes are collectible beginning the first business day of March of the subsequent year, but are not considered delinquent until after October 15. Property taxes reflected as revenues on the financial statements include the property tax relief distribution made by the State of Arkansas. The purpose of this distribution is to reimburse the municipality for property tax credits in accordance with Arkansas Code.

F. Budget Law

State law requires that these procedures be followed in establishing the budgetary data:

- a. Prior to December 1, the Mayor submits to the City Council a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. The proposed budget is discussed at a City Council meeting prior to adoption.
- c. Prior to February 1, the budget is legally enacted by ordinance or resolution of the City Council.
- d. Appropriations lapse at the end of each year.
- e. Under certain conditions, the budget may be amended subsequent to the year-end.

The budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the Council during the year.

Basis of Accounting

The City prepared an annual budget on the regulatory basis for the General Fund, Street Fund, and the other operating funds.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Balance Classification Policies and Procedures

The Municipality's highest level of decision-making authority is its City Council. The establishment of amounts classified as committed fund balances and any subsequent modifications to such balances are the result of formal action taken by the City Council through passage of an ordinance. The City Council is authorized to assign amounts to a specific purpose, although a formal policy has not been established.

The Municipality does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The Municipality does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

NOTE 2: Cash Deposits with Financial Institutions

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 808,781	\$ 808,781
Collateralized:		
Collateral held by the City's agent, pledging bank or pledging bank's trust department or agent in the City's name	6,255,124	6,508,919
Uncollateralized	8,732,464	8,732,464
	<u>\$ 15,796,369</u>	<u>\$ 16,050,164</u>
Total Deposits		

The above total deposits do not include cash on hand of \$496.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022, \$8,732,464 of the City's bank balances were exposed to custodial credit risk. The balances exposed to custodial credit risk were deposited in a money market account invested in Northern Institutional Treasury Portfolio, which is not insured or collateralized, but invests primarily in instruments issued by, or backed by, the U.S. government and related repurchase agreements.

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

State law generally requires that municipal funds be deposited in federally insured banks located in the State of Arkansas. The municipal deposits may be in the form of checking accounts, savings accounts, and time deposits. Public funds may be invested in eligible investment securities having a maturity of not longer than 5 years from the date of acquisition unless, as documented at the time of acquisition, the investment is to fund or support a specific purpose and there are no expectations that the investment will be sold before maturity; an Arkansas bank certificate of deposit; an account established by a local government joint investment trust; or an Arkansas financial institution repurchase agreement for eligible investment securities in which the seller agrees to repurchase the investment at a price including interest earned during the holding period as determined by the repurchase agreement.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 3: Legal or Contractual Provisions for Deposits and Investments (Continued)

Pension Trust Funds

State law generally requires that pension funds be deposited in banks. Pension funds may be invested in interest-bearing bonds of the United States, of the State of Arkansas, or of the city in which the board is located, in a local government joint investment trust, in the Arkansas Local Police and Fire Retirement System, or in savings and loan associations duly established and authorized to do business in this state. State law also provides that if the total assets of the pension trust fund exceed \$100,000, the board may employ an investment advisor to invest the assets, subject to terms, conditions, limitations, and restrictions imposed by law upon the Arkansas Local Police and Fire Retirement System.

NOTE 4: Accounts Receivable

The accounts receivable balance at December 31, 2022, is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Federal aid			\$ 381,791
Property taxes	\$ 49,564	\$ 2,283	
Franchise fees	26,172		
Sales taxes	116,192		203,856
Fines, forfeitures, and costs	5,281		2,110
Local permits and fees	3,740		4,099
Sanitation fees	393		
Advertising and promotion taxes			4,374
Other	6,394		4,349
Totals	<u>\$ 207,736</u>	<u>\$ 2,283</u>	<u>\$ 600,579</u>

NOTE 5: Accounts Payable

The accounts payable balance at December 31, 2022, is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Vendor payables	<u>\$ 35,669</u>	<u>\$ 60</u>	<u>\$ 427,583</u>

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 6: Details of Fund Balance Classifications

Fund balance classifications at December 31, 2022, are composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Fund Balances:			
Restricted for:			
Law enforcement			\$ 28,767
Highways and streets		\$ 484,057	
Advertising and promotion			118,174
Capital outlay			7,925,623
Debt service			993,032
Total Restricted		<u>484,057</u>	<u>9,065,596</u>
Committed for:			
Law enforcement			5,865
Airport			47,259
Cemetery			33,455
Total Committed			<u>86,579</u>
Assigned to:			
Highways and streets		143,933	
Public safety	\$ 203,726		21,407
Sanitation	1,355,837		
Recreation and culture			661,603
Airport			325,000
Cemetery			7,953
Total Assigned	<u>1,559,563</u>	<u>143,933</u>	<u>1,015,963</u>
Unassigned	<u>3,750,019</u>		
Totals	<u>\$ 5,309,582</u>	<u>\$ 627,990</u>	<u>\$ 10,168,138</u>

NOTE 7: Legal Debt Limit

A. Property Tax Secured Bonded Debt

The City is subject to a constitutional limitation for bonded indebtedness equal to 20% of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2022, the legal debt limit for the bonded debt was \$25,398,701. There were no property tax secured bond issues.

B. Short-term Financing Obligations

The City is subject to a constitutional limitation for short-term financing obligations equal to 5% of the assessed value of taxable property within the City as determined by the last tax assessment. At December 31, 2022, the legal debt limit for short-term financing obligations was \$6,620,691. The amount of short-term financing obligations was \$323,270, leaving a legal debt margin of \$6,297,421.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8: Commitments

Total commitments consist of the following at December 31, 2022:

	December 31, 2022
Long-term liabilities	\$ 15,253,393
Construction contracts	<u>2,064,420</u>
Total Commitments	<u>\$ 17,317,813</u>

Long-term liabilities

Long-term liabilities at December 31, 2022, are comprised of the following:

	December 31, 2022
<u>Bonds</u>	
Sales and Use Tax Bonds, Series 2021 A and B, dated July 1, 2021, in the amount of \$16,250,000, issued for the purpose of refunding Series 2015 bond issue and financing capital improvements, due in semi-annual installments of \$370,000 - \$815,000 plus interest of .5% - 3.25% through June 1, 2047. Surplus bond tax receipts will be used to redeem bonds as funds are available thus shortening the final maturity date of the bonds. The maturity date of the bonds as of the year ended December 31, 2022 is June 2036. Payments are to be made from Debt Service Fund with proceeds of a .625% sales tax.	<u>\$ 14,780,000</u>
<u>Direct Borrowings</u>	
Financed purchase dated March 21, 2018 with Eagle Bank in the amount of \$222,800 with interest rate of 2.76% for the purchase of two Freightliner sanitation trucks. The City will make five annual payments of \$48,372 beginning March 21, 2019. Payments are to be made from the Sanitation Fund, which is within the General Fund.	47,056
Financed purchase dated November 22, 2022, with Eagle Bank in the amount of \$195,581 with interest rate of 5.32% for the purchase of a 2023 Freightliner truck. Twenty four monthly payments of \$8,616 beginning December 23, 2022. Payments are to be made from the Street Fund.	187,861
Financed purchase dated March 4 2022 with Red River Dodge in the amount of \$88,353 with an interest rate of 3.494% for the purchase of Dodge Durangos. Three yearly payments of \$31,533 beginning March 4, 2023. Payments are to be made from the General Fund.	88,353
Total Direct Borrowings	<u>323,270</u>
Compensated absences consisting of accrued sick leave adjusted to current salary cost	<u>150,123</u>
Total Long-term liabilities	<u>\$ 15,253,393</u>

Due to the City's regulatory basis of accounting, these liabilities are not recorded in the financial statements.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8: Commitments (Continued)

Long-term liabilities (Continued)

The City's outstanding bonds payable of \$14,780,000 contain a provision that in an event of default, the Trustee may, and upon written request of the owners of not less than 10% in principal amount of the bonds then outstanding shall, by proper suit compel the performance of the duties of the officials of the City and officials of the State to take any action or obtain any proper relief in law or equity available under the Constitution and laws of the State.

The City's outstanding direct borrowings of \$323,270 contain a provision that in an event of default, outstanding amounts, at the Lender's sole option, may be declared immediately due and payable, and the Lender may exercise any rights and remedies, including the right to immediate possession of the collateral, available to it under applicable law.

Long-Term Debt Issued and Outstanding

Date of Issue	Date of Final Maturity	Rate of Interest	Amount Authorized and Issued	Debt Outstanding December 31, 2022	Maturities to December 31, 2022
<u>Bonds</u>					
7/1/21	6/1/46	.5 - 3.25%	\$ 16,250,000	\$ 14,780,000	\$ 1,470,000
<u>Direct Borrowings</u>					
3/21/18	3/21/23	2.76%	222,800	47,056	175,744
11/22/22	11/23/24	5.32%	195,581	187,861	7,720
3/4/22	3/24/25	3.49%	88,353	88,353	
Total Direct Borrowings			506,734	323,270	183,464
Total Long-Term Debt			\$ 16,756,734	\$ 15,103,270	\$ 1,653,464

Changes in Long-Term Debt

	Balance January 01, 2022	Issued	Retired	Balance December 31, 2022
Bonds payable	\$ 15,960,000	\$ 0	\$ 1,180,000	\$ 14,780,000
<u>Direct Borrowings</u>				
Financed purchases	209,482	283,934	170,146 *	323,270
Total Long-Term Debt	\$ 16,169,482	\$ 283,934	\$ 1,350,146	\$ 15,103,270

* Includes \$92,782 early retirement of financed purchase dated September 2, 2020 after financed equipment was traded on new purchase.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 8: Commitments (Continued)

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2022:

Years Ending December 31,	Bonds			Direct Borrowings		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 485,000	\$ 333,645	\$ 818,645	\$ 171,103	\$ 12,193	\$ 183,296
2024	490,000	329,862	819,862	121,700	4,608	126,308
2025	495,000	324,194	819,194	30,467	1,066	31,533
2026	500,000	317,227	817,227			
2027	510,000	308,987	818,987			
2028 - 2032	2,715,000	1,373,209	4,088,209			
2033 - 2037	3,085,000	986,844	4,071,844			
2038 - 2042	3,585,000	476,050	4,061,050			
2043 - 2046	2,915,000	89,172	3,004,172			
Totals	<u>\$ 14,780,000</u>	<u>\$ 4,539,190</u>	<u>\$ 19,319,190</u>	<u>\$ 323,270</u>	<u>\$ 17,867</u>	<u>\$ 341,137</u>

Construction Contracts

The City was contractually obligated for the following construction contracts at December 31, 2022:

Project Name	Completion Date	Contract Balance December 31, 2022
Runway Safety Area	November 2023	\$ 347,442
Sulphur Creek Trails	May 2023	1,018,431
Sandy Beach Bathrooms	May 2023	343,886
Spring Park Renovation	May 2023	354,661
Total Construction Contracts		<u>\$ 2,064,420</u>

NOTE 9: Interfund Transfers

The City transferred General Funds of \$200,000 to Other Funds in the Aggregate to supplement the Airport.

NOTE 10: Pledged Revenues

The City pledged future .625% sales and use taxes to repay \$16,250,000 in bonds that were issued in 2021 to refund bonds issued in 2015 that financed a portion of the cost of capital improvements. Total principal and interest remaining on the bonds are \$14,780,000 and \$4,539,190, respectively, payable through June 1, 2046. For 2022, principal and interest paid were \$1,180,000 and \$347,050, respectively.

The Debt Service Fund received \$1,556,336 in sales taxes in 2022. Any sales taxes collected in excess of required debt service payments on these bonds will be used for the early redemption of the bonds.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 11: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements, if any, has not exceeded the insurance coverage for each of the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

The City participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees, and volunteer fire fighters while performing work for the municipality. Rates for municipalities participating in this program are revised by class code on an annual basis by the Arkansas Workers' Compensation Commission.

Municipal Vehicle Program

- A. Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is as follows: \$25,000 because of bodily injury to or death of one person in any one accident; \$50,000 because of bodily injury to or death of two or more persons in any one accident; and \$25,000 because of injury to or destruction of property of others in any one accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and self-propelled mobile equipment owned or leased by the City.
- B. Physical Damage - This program covers motor vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The City agrees to pay into the program each year a service charge established annually by the program administrator for covered property.

Municipal Property Program - This program covers insurable property and equipment, exclusive of motor vehicles and water vessels, which belong to or are in the care, custody, or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$5,000, or in the case of flood or earthquake, \$100,000. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for property for which the municipality desires coverage.

Municipal Legal Defense Program - The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages – not punitive damages) imposed on municipal officials and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials, and employees because of judgment in any one lawsuit for more than 25% of the program's available funds at time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. The City agrees to pay into the program each year a charge established by the steering committee. Each city also agrees to pay the first \$3,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$300,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$2,500 deductible per occurrence.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

**NOTE 12: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan)**

Plan Description

The City contributes to the Local Police and Fire Retirement System (LOPFI), an agent multiple employer retirement system that acts as a common investment and administrative agent for cities and towns in Arkansas. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Local Police and Fire Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, 620 W. 3rd, Suite 200, Little Rock, Arkansas 72201, by calling 1-866-859-1745, or on their website www.lopfi-prb.com.

On September 26, 2017, administration of the City of Heber Springs' Firemen's Pension and Relief Fund and the Policemen's Pension and Relief Fund was transferred to LOPFI. The benefit structure of these plans was not changed.

Funding Policy

The employee contribution rate depends on the type of service being rendered and whether or not the service is also covered by Social Security. The different employee contribution rates required by state law are:

- A. Paid service not covered by Social Security: 8.5% of gross pay
- B. Paid service also covered by Social Security: 2.5% of gross pay
- C. Volunteer fire service: no employee contribution

The City is required to contribute at an actuarially determined rate. The contribution requirements of plan members are established and may be amended by State law. The contribution requirements of the City are established and may be amended by the LOPFI Board of Trustees. The plan is also funded with state insurance tax. The City's contribution to the plan was \$217,203 and the amount of insurance tax paid by the state to the plan for the benefit of the City was \$97,039 for the year ended December 31, 2022.

Net Pension Liability

The requirements of Governmental Accounting Standards Board Statement no. 68, under the regulatory basis of accounting, are limited to disclosure of the City's share of the collective net pension liability. The City's proportionate share of the collective net pension liability at December 31, 2022, (actuarial valuation date and measurement date) was \$2,717,695.

NOTE 13: Arkansas Public Employees Retirement System

Plan Description

The City contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201, by calling 1-800-682-7377, or on their website www.apers.org.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 13: Arkansas Public Employees Retirement System (Continued)

Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salary. Beginning July 1, 2022, the contribution rates shall be increased in increments of .25% per fiscal year, not to exceed 7%. The contributory rate was increased to 5.25% as of July 1, 2022. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees of the system, based on the annual actuarial valuation. The City's contribution to the plan for the year ended June 30, 2022, (date of APERS Employer Allocation Report) was \$171,695.

Net Pension Liability

The requirements of Governmental Accounting Standards Board Statement no. 68, under the regulatory basis of accounting, are limited to disclosure of the City's share of the collective net pension liability. The City's proportionate share of the collective net pension liability at June 30, 2022, (actuarial valuation date and measurement date) was \$1,445,693.

NOTE 14: Mayor's Retirement Benefits

Plan Description

Ark. Code Ann. § 24-12-123 establishes retirement benefits for mayors in cities of the first class and death benefits to their spouses at the option of the governing body of the City. Benefits and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. A retiree is entitled to receive an annual retirement benefit during the remainder of their natural life, payable at the rate of one-half (1/2) of the salary payable to the mayor at the completion of his or her last term as mayor. Retirement benefits are to be paid monthly from the City's General Fund. A mayor may retire: 1.) upon reaching the age of 60 with a minimum of ten years of service or 2.) upon serving 20 years, regardless of age. The City paid the spouse of retired Mayor Edward Roper \$11,250 for the year ended December 31, 2022.

NOTE 15: Clerk/Treasurer Retirement Benefits

Plan Description

Ark. Code Ann. § 24-12-121 establishes retirement benefits for clerk/treasurers in cities of the first class and death benefits to their spouses at the option of the governing body of the City. Benefits and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. A retiree is entitled to receive a monthly retirement benefit during the remainder of their natural life, a sum equal to one-half (1/2) of the monthly salary received during the last preceding year of service. Retirement benefits are to be paid from the City's General Fund. A clerk/treasurer may retire: 1.) upon reaching the age of 60 with a minimum of 10 years of service or 2.) upon serving 20 years, regardless of age. The City paid former Clerk/Treasurer Norma Martin \$23,340 for the year ended December 31, 2022.

NOTE 16: City Attorney Retirement Benefits

Plan Description

Ark. Code Ann. § 24-12-120 establishes retirement benefits for city attorneys in cities of the first class at the option of the governing body of the City. Benefits and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. A retiree is entitled to receive an annual retirement benefit during the remainder of their natural life, payable at the rate of one-half (1/2) of the salary payable to the city attorney at the time of retirement. Retirement benefits are to be paid monthly from the City's General Fund. A city attorney may retire: 1.) upon reaching the age of 60 with a minimum of 10 years of service or 2.) upon serving 20 years, regardless of service. The City paid former City Attorney James Green \$12,200 for the year ended December 31, 2022.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 17: Corona Virus (COVID-19)

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). In 2021, the City was awarded \$1,432,863 in federal aid from the American Rescue Plan Act of 2021, and as of the report date, \$1,432,863 of this amount has been received. The extent of the impact of COVID-19 on financial statements for future reporting periods remains uncertain.

NOTE 18: Interlocal Agreement

The City entered into an interlocal agreement with Cleburne County on December 17, 2020, for the County to provide dispatching services and proper custody of prisoners held at the County Jail for the City. Under the agreement, the City will pay \$100,000 annually to be paid on a quarterly basis beginning January 1, 2021.

NOTE 19: Federal Funds Program Compliance

Federal grants were not audited in accordance with federal program requirements and therefore, any instances of noncompliance with federal grant requirements have not been determined. Disbursements that are not in accordance with the federal program requirements are subject to reimbursement by the City. The City is in the process of obtaining a federal audit.

NOTE 20: Refunded Bonds

On July 1, 2021, the City advance refunded bonds dated September 30, 2015. The outstanding principal of the bonds refunded was \$5,060,000 at December 31, 2022. U.S. Government securities of \$4,903,284, purchased by the escrow agent, were pledged for the retirement of these bonds. These 2015 Series bonds are to be called on December 31, 2025.

NOTE 21: Subsequent Events

- On January 11, 2023, the City executed a \$398,113 financed purchase agreement for the purchase of two sanitation trucks.
- On January 17, 2023, the City entered into a \$420,223 contract with Bobby Kennedy Construction for street improvements.
- On April 25, 2023, the City entered into a \$1,462,052 contract with Trane U.S. Inc. for lighting upgrades. The contract is contingent upon obtaining financing from the Arkansas Department of Energy Office. This financing has not been obtained as of the date of this report.
- On August 23, 2023, the City entered into a \$637,500 contract with CK Asphalt for the Sulphur Creek Trails project.

CITY OF HEBER SPRINGS, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2022

Schedule 1

	SPECIAL REVENUE FUNDS						Community Center
	Fire Protection	Municipal Court Administration	Police Equipment	Advertising and Promotion Tax	Airport	Cemetery	Operation and Maintenance
ASSETS							
Cash and cash equivalents	\$ 21,407	\$ 4,645	\$ 27,877	\$ 113,800	\$ 411,140	\$ 41,408	\$ 583,620
Accounts receivable		1,220	890	4,374	385,332		81,353
TOTAL ASSETS	<u>\$ 21,407</u>	<u>\$ 5,865</u>	<u>\$ 28,767</u>	<u>\$ 118,174</u>	<u>\$ 796,472</u>	<u>\$ 41,408</u>	<u>\$ 664,973</u>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable					\$ 424,213		\$ 3,370
Settlements pending							
Total Liabilities					<u>424,213</u>		<u>3,370</u>
Fund Balances:							
Restricted			\$ 28,767	\$ 118,174			
Committed		\$ 5,865			47,259	\$ 33,455	
Assigned	\$ 21,407				325,000	7,953	661,603
Total Fund Balances	<u>21,407</u>	<u>5,865</u>	<u>28,767</u>	<u>118,174</u>	<u>372,259</u>	<u>41,408</u>	<u>661,603</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,407</u>	<u>\$ 5,865</u>	<u>\$ 28,767</u>	<u>\$ 118,174</u>	<u>\$ 796,472</u>	<u>\$ 41,408</u>	<u>\$ 664,973</u>

CITY OF HEBER SPRINGS, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2022

Schedule 1

	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	CUSTODIAL FUNDS			
	2021 Sales and Use Tax Bond Construction	2021 Sales and Use Tax Bond	Administration of Justice	Payroll	Special Clearing	Totals
ASSETS						
Cash and cash equivalents	\$ 7,925,623	\$ 865,622	\$ 16	\$ 35,392	\$ 3,033	\$ 10,033,583
Accounts receivable		127,410				600,579
TOTAL ASSETS	\$ 7,925,623	\$ 993,032	\$ 16	\$ 35,392	\$ 3,033	\$ 10,634,162
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable						\$ 427,583
Settlements pending			\$ 16	\$ 35,392	\$ 3,033	38,441
Total Liabilities			16	35,392	3,033	466,024
Fund Balances:						
Restricted	\$ 7,925,623	\$ 993,032				9,065,596
Committed						86,579
Assigned						1,015,963
Total Fund Balances	7,925,623	993,032				10,168,138
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,925,623	\$ 993,032	\$ 16	\$ 35,392	\$ 3,033	\$ 10,634,162

CITY OF HEBER SPRINGS, ARKANSAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Schedule 2

	SPECIAL REVENUE FUNDS						Community Center Operation and Maintenance	American Rescue Plan Act
	Fire Protection	Municipal Court Administration	Police Equipment	Advertising and Promotion Tax	Airport	Cemetery		
REVENUES								
Federal aid			\$ 5,730		\$ 998,588		\$ 204,000	\$ 716,427
Sales taxes							933,802	
Fines, forfeitures, and costs		\$ 14,639	12,375					
Interest	\$ 11	96	327	\$ 53	114	\$ 20	3,198	418
Local permits and fees						300	324,756	
Advertising and promotion taxes				56,180				
Fuel sales					108,349			
Other			5,474	6,250	45,346	7,550	70,986	
TOTAL REVENUES	11	14,735	23,906	62,483	1,152,397	7,870	1,536,742	716,845
EXPENDITURES								
Current:								
General government								48,459
Law enforcement		14,639	30,363					1,037,072
Highways and streets								
Public safety								347,750
Recreation and culture							1,354,909	
Advertising and promotion				47,506				
Airport					1,310,316			
Cemetery						1,656		
Total Current		14,639	30,363	47,506	1,310,316	1,656	1,354,909	1,433,281
Debt Service:								
Bond principal								
Bond interest and other charges								
TOTAL EXPENDITURES		14,639	30,363	47,506	1,310,316	1,656	1,354,909	1,433,281
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11	96	(6,457)	14,977	(157,919)	6,214	181,833	(716,436)
OTHER FINANCING SOURCES (USES)								
Transfers in					200,000			
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	11	96	(6,457)	14,977	42,081	6,214	181,833	(716,436)
FUND BALANCES - JANUARY 1	21,396	5,769	35,224	103,197	330,178	35,194	479,770	716,436
FUND BALANCES - DECEMBER 31	\$ 21,407	\$ 5,865	\$ 28,767	\$ 118,174	\$ 372,259	\$ 41,408	\$ 661,603	\$ 0

CITY OF HEBER SPRINGS, ARKANSAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

Schedule 2

	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	
	2021 Sales and Use Tax Bond Construction	2021 Sales and Use Tax Bond	Totals
REVENUES			
Federal aid			\$ 1,924,745
Sales taxes		\$ 1,556,336	2,490,138
Fines, forfeitures, and costs			27,014
Interest	\$ 86,900	9,833	100,970
Local permits and fees			325,056
Advertising and promotion taxes			56,180
Fuel sales			108,349
Other			135,606
TOTAL REVENUES	86,900	1,566,169	5,168,058
EXPENDITURES			
Current:			
General government			48,459
Law enforcement			1,082,074
Highways and streets	232,617		232,617
Public safety			347,750
Recreation and culture	421,858		1,776,767
Advertising and promotion			47,506
Airport			1,310,316
Cemetery			1,656
Total Current	654,475		4,847,145
Debt Service:			
Bond principal		1,180,000	1,180,000
Bond interest and other charges		351,751	351,751
TOTAL EXPENDITURES	654,475	1,531,751	6,378,896
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(567,575)	34,418	(1,210,838)
OTHER FINANCING SOURCES (USES)			
Transfers in			200,000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(567,575)	34,418	(1,010,838)
FUND BALANCES - JANUARY 1	8,493,198	958,614	11,178,976
FUND BALANCES - DECEMBER 31	\$ 7,925,623	\$ 993,032	\$ 10,168,138

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO SCHEDULES 1 AND 2
DECEMBER 31, 2022

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
Fire Protection	Ark. Code Ann. §§ 14-284-403, 404 requires insurance premium tax funds to be distributed by the county to municipal fire departments for training, purchase and improvement of fire fighting equipment, initial capital construction or improvements of fire departments, insurance for buildings, and utilities costs.
Municipal Court Administration	Heber Springs Ordinance no. 93-5 (May 13, 1993) levies additional court costs with a portion of the court costs to be retained by the City and a portion to be received by the County.
Police Equipment	Heber Springs Ordinance no. 2003-3 (February 13, 2003) combined the Drug Control Fund and the Equipment Fund. All warrant fees authorized by law (Ark. Code Ann. § 21-6-307) and ordinance collected by the Heber Springs Police Department, all forfeitures, sale of contraband and other revenue to or inuring for the benefit of the City pursuant to Ark. Code Ann. § 5-64-505 shall be deposited into the fund.
Advertising and Promotion Tax	Ark. Code Ann. § 26-75-606 established fund to account for the tax levied on gross receipts of hotels, restaurants, etc. The tax shall be used for the advertising and promoting of the City and its environs, construction, maintenance, and operation of a convention center, operation of tourist promotion facilities, and payment of principal and interest in connection with bonds issued. Heber Springs Ordinance no. 93-7 (May 27, 1993) levied a tax of two percent upon the gross receipts or gross proceeds of hotels or motel accommodations.
Airport	Ark. Code Ann. § 14-361-116 established fund to receive revenues obtained by a municipality from the ownership, control, or operation of any airport or air navigation facility, including proceeds from the sale of any airport or portion thereof or air navigation facility property. The revenues shall be used solely for airport purposes. Heber Springs Ordinance no. 2005-6 (May 12, 2005) authorizes the Mayor and City Clerk to enter into a contract for the lease and operation of the Municipal Airport.
Cemetery	Heber Springs Ordinance no. 2004-23 (December 9, 2004) established a separate fund for monies donated for the use and benefit of the cemetery.
Community Center Operation and Maintenance	Heber Springs Ordinance no. 2006-21 (May 18, 2006) authorizes the issuance of sales and use tax bonds for the purpose of financing all or a portion of the cost of capital improvements, pledging sales and use taxes aggregating one percent to pay the principal of, and interest on the bonds.

CITY OF HEBER SPRINGS, ARKANSAS
NOTES TO SCHEDULES 1 AND 2
DECEMBER 31, 2022

The following funds and descriptions represent all funds reported as other funds in the aggregate.

<u>Fund Name</u>	<u>Fund Description</u>
American Rescue Plan Act	Fund established to receive and disburse Coronavirus State and Local Fiscal Recovery Funds (SLFR), a part of the American Rescue Plan Act (ARPA) of 2021, to support response to and recovery from the COVID-19 public health emergency.
2021 Sales and Use Tax Bond Construction	Heber Springs Ordinance no. 2021-04 (May 20, 2021) authorized the issuance of refunding and improvement sales tax bonds to refinance the 2015 bonds and to finance all or a portion of the cost of capital improvements.
2021 Sales and Use Tax Bond	Heber Springs Ordinance no. 2021-04 (May 20, 2021) authorized the refinancing of the 2015 bonds and the issuance of sales and use tax bonds for the purpose of financing all or a portion of the cost of capital improvements; pledging sales and use taxes aggregating 0.625% to pay the principal of and interest on the bonds.
Administration of Justice	Ark. Code Ann. § 16-10-308 established fund to receive the city's share of uniform court costs and filing fees to be used to defray a part of the expenses of the administration of justice in the city.
Payroll	Established to process the City's payroll.
Special Clearing	Established to process the City's electronic fund transfers.

CITY OF HEBER SPRINGS, ARKANSAS
OTHER INFORMATION
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2022
(Unaudited)

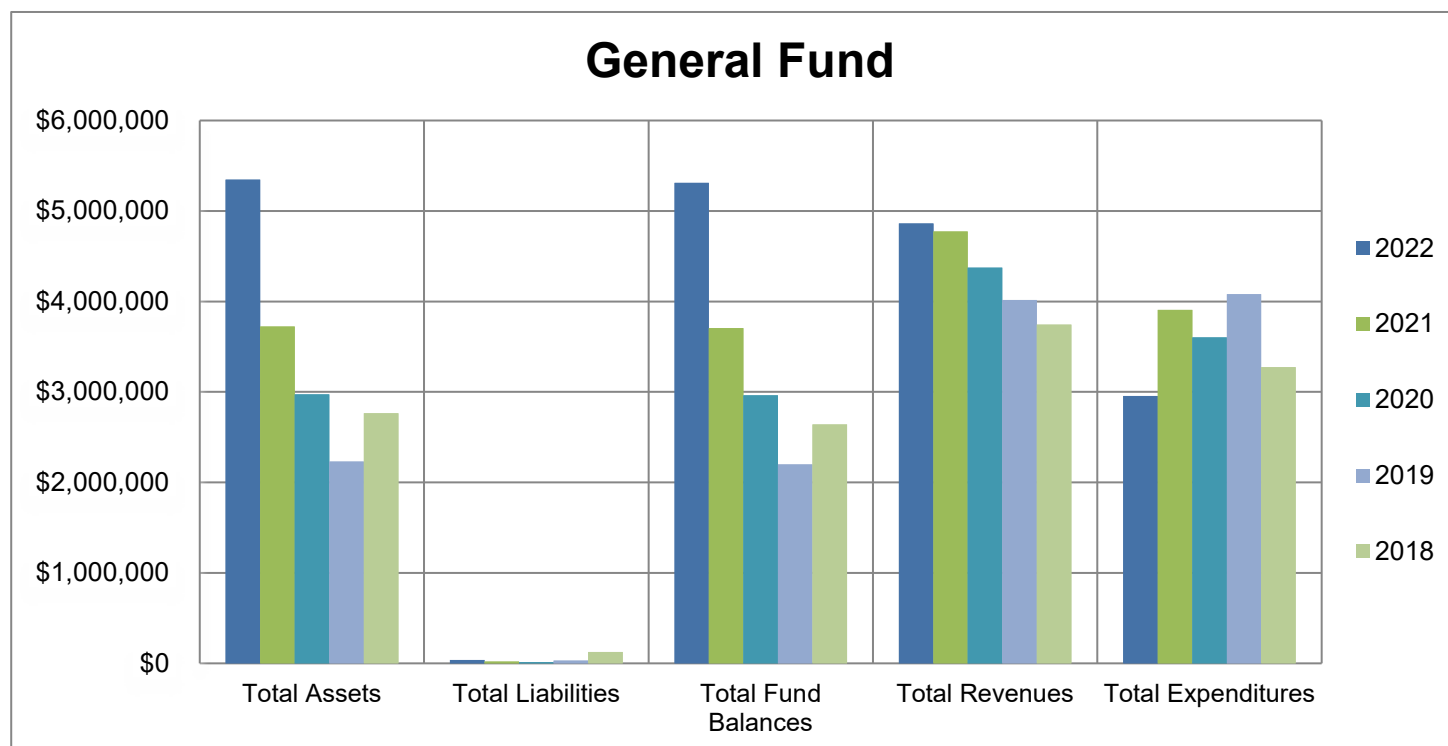
Schedule 3

	December 31, 2022
Land	\$ 4,390,250
Improvements	3,286,043
Buildings	14,973,331
Equipment	<u>6,035,288</u>
Total	<u><u>\$ 28,684,912</u></u>

CITY OF HEBER SPRINGS, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - GENERAL FUND - REGULATORY BASIS
DECEMBER 31, 2022
(Unaudited)

Schedule 4-1

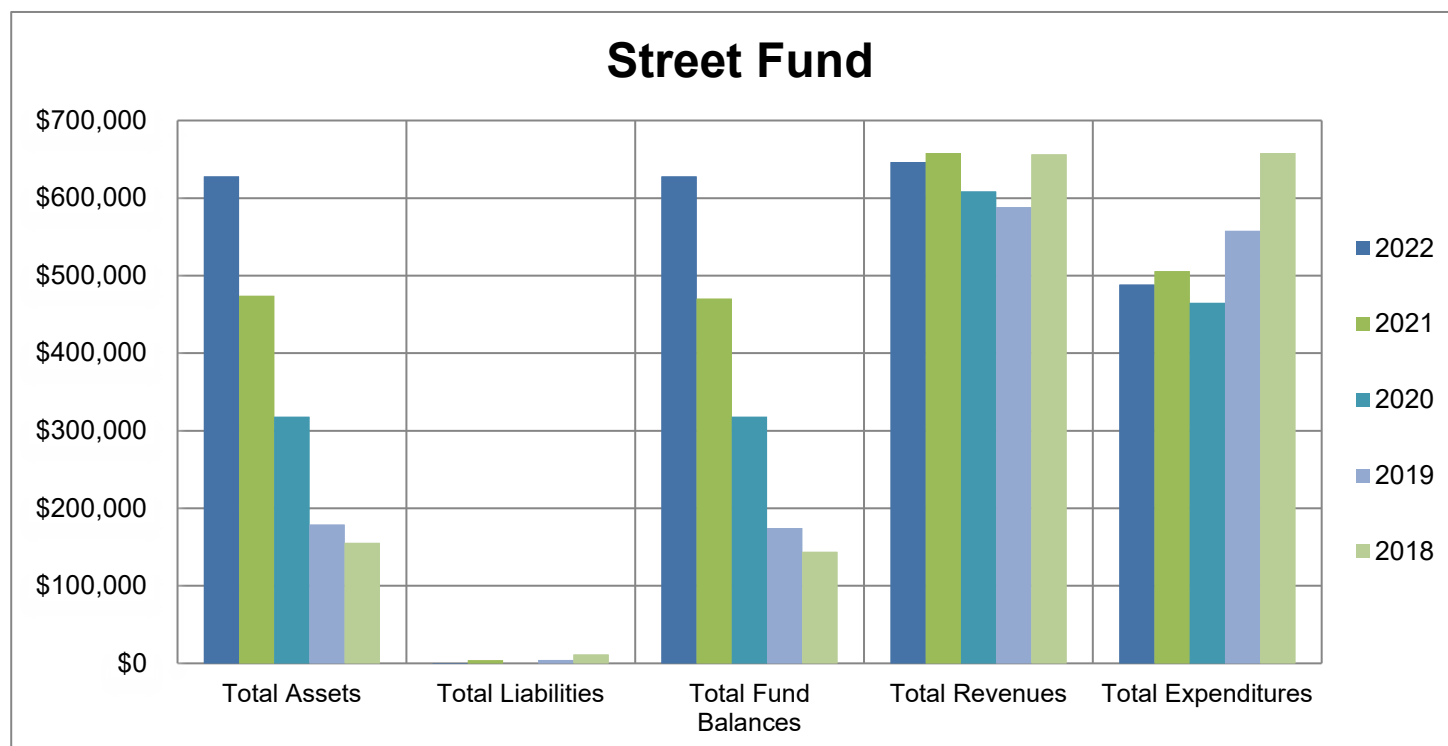
<u>General</u>	2022	2021	2020	2019	2018
Total Assets	\$ 5,345,251	\$ 3,723,304	\$ 2,974,323	\$ 2,230,041	\$ 2,764,040
Total Liabilities	35,669	19,595	10,977	31,618	124,566
Total Fund Balances	5,309,582	3,703,709	2,963,346	2,198,423	2,639,474
Total Revenues	4,860,841	4,772,573	4,375,370	4,018,050	3,744,347
Total Expenditures	2,955,593	3,907,210	3,603,947	4,081,649	3,274,321
Total Other Financing Sources/Uses	(299,375)	(125,000)	(6,500)	(377,452)	(273,355)



CITY OF HEBER SPRINGS, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - STREET FUND - REGULATORY BASIS
DECEMBER 31, 2022
(Unaudited)

Schedule 4-2

Street	2022	2021	2020	2019	2018
Total Assets	\$ 628,050	\$ 473,813	\$ 317,797	\$ 178,730	\$ 155,249
Total Liabilities	60	3,771		4,475	11,316
Total Fund Balances	627,990	470,042	317,797	174,255	143,933
Total Revenues	646,280	657,994	608,492	588,180	656,248
Total Expenditures	488,332	505,749	464,950	557,858	658,039
Total Other Financing Sources/Uses					90,000



CITY OF HEBER SPRINGS, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - OTHER FUNDS IN THE AGGREGATE - REGULATORY BASIS
DECEMBER 31, 2022
(Unaudited)

Schedule 4-3

<u>Other Funds in the Aggregate</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Assets	\$ 10,634,162	\$ 11,316,030	\$ 1,426,286	\$ 1,187,164	\$ 2,163,274
Total Liabilities	466,024	137,054	201,643	93,935	1,296,695
Total Fund Balances	10,168,138	11,178,976	1,224,643	1,093,229	866,579
Total Revenues	5,168,058	3,960,394	2,592,340	2,886,161	3,673,424
Total Expenditures	6,378,896	3,974,731	2,467,426	3,036,963	3,757,744
Total Other Financing Sources/Uses	200,000	9,968,670	6,500	377,452	150,115

