

City of Bella Vista, Arkansas

**Financial Statements
December 31, 2021**

(With Independent Auditor's Report Thereon)

City of Bella Vista, Arkansas

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Bella Vista
Bella Vista, Arkansas

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the general fund, street fund, and other funds in the aggregate of the **City of Bella Vista** (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements 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 as of December 31, 2021, and their respective revenues, expenditures, and changes in fund balances and the budgetary results for the general fund and the street fund for the year then ended in accordance with the basis of accounting practices prescribed or permitted by Arkansas Code Annotated §10-4-412 as described in Note 2.

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 financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City as of December 31, 2021, or the revenues, expenditures, and changes in fund balance for the year then ended.

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 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 2 of the financial statements, the financial statements are prepared by the City on the basis of accounting practices prescribed or permitted by Arkansas Code Annotated §10-4-412 to demonstrate compliance with the State of Arkansas (the State) regulatory basis of accounting and budget laws, 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 2 and accounting principles generally accepted in the United States of America, although not reasonable determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed or permitted by the State to demonstrate compliance with the State's regulatory basis of accounting and budget laws. 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 misstatement, whether due to fraud or error.

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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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 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 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated August 31, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of the state constitution, laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas
August 31, 2022

Financial Statements

City of Bella Vista, Arkansas

Statement of Assets, Liabilities, and Fund Balances – Regulatory Basis December 31, 2021

	General Fund	Street Fund	Other Funds In The Aggregate	Total
ASSETS				
Cash and cash equivalents				
Unrestricted	\$ 6,998,449	\$ -	\$ -	\$ 6,998,449
Restricted	1,840,978	570,773	19,600,547	22,012,298
Investments	4,820,729	-	-	4,820,729
Accounts receivable, net	1,838,023	72,862	303,193	2,214,078
Due from other funds	311,833	-	169,871	481,704
	<u>15,810,012</u>	<u>643,635</u>	<u>20,073,611</u>	<u>36,527,258</u>
TOTAL ASSETS	\$ 15,810,012	\$ 643,635	\$ 20,073,611	\$ 36,527,258
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 706,576	\$ 136,366	\$ 1,078,342	\$ 1,921,284
Accrued expenses	-	-	44,812	44,812
Settlements pending	-	-	62,156	62,156
Due to other funds	-	174,259	307,445	481,704
	<u>706,576</u>	<u>310,625</u>	<u>1,492,755</u>	<u>2,509,956</u>
Total Liabilities	706,576	310,625	1,492,755	2,509,956
Fund Balances				
Governmental funds:				
Restricted	3,847,134	333,010	18,580,856	22,761,000
Assigned	110,269	-	-	110,269
Unassigned	11,146,033	-	-	11,146,033
	<u>15,103,436</u>	<u>333,010</u>	<u>18,580,856</u>	<u>34,017,302</u>
Total Fund Balances	15,103,436	333,010	18,580,856	34,017,302
TOTAL LIABILITIES AND FUND BALANCES	\$ 15,810,012	\$ 643,635	\$ 20,073,611	\$ 36,527,258

See accompanying notes to financial statements.

City of Bella Vista, Arkansas

Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis Year ended December 31, 2021

	General Fund	Street Fund	Other Funds in the Aggregate	Total
REVENUES				
State awards	\$ 41,033	\$ -	\$ -	\$ 41,033
Federal awards	3,198,554	-	-	3,198,554
Property taxes	3,065,205	-	-	3,065,205
Franchise taxes	1,846,074	-	-	1,846,074
State turnbacks	441,845	2,258,349	-	2,700,194
County road turnbacks	-	530,320	-	530,320
Sales taxes	11,444,113	-	3,313,276	14,757,389
Fines, forfeitures, and costs	173,824	-	-	173,824
Interest	161,659	400	1,490	163,549
Local permits and fees	838,154	-	-	838,154
Sanitation fees	306,511	-	-	306,511
Ambulance fees	964,438	-	-	964,438
Other	386,315	-	-	386,315
TOTAL REVENUES	22,867,725	2,789,069	3,314,766	28,971,560
EXPENDITURES				
General government	3,365,888	-	-	3,365,888
Law enforcement	4,747,119	-	-	4,747,119
Public safety	6,117,022	-	-	6,117,022
Highways and streets	-	3,508,209	-	3,508,209
Recreation and culture	570,853	-	-	570,853
Capital outlay	4,421,618	-	6,786,995	11,208,613
Debt service				
Note principal	346,853	-	1,885,000	2,231,853
Note interest	2,256	-	507,790	510,046
TOTAL EXPENDITURES	19,571,609	3,508,209	9,179,785	32,259,603

See accompanying notes to financial statements.

City of Bella Vista, Arkansas

Statement of Revenues, Expenditures, and Changes in Fund Balances – Regulatory Basis Year ended December 31, 2021

	General Fund	Street Fund	Other Funds in the Aggregate	Total
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,296,116	(719,140)	(5,865,019)	(3,288,043)
OTHER FINANCING SOURCES (USES)				
Transfers in	28,253	500,000	-	528,253
Transfers out	(500,000)	-	(28,253)	(528,253)
Bond trustee fees	(1,100)	-	-	(1,100)
TOTAL OTHER FINANCING SOURCES (USES)	(472,847)	500,000	(28,253)	(1,100)
NET CHANGE IN FUND BALANCES	2,823,269	(219,140)	(5,893,272)	(3,289,143)
FUND BALANCES, BEGINNING OF YEAR	12,280,167	552,150	24,474,128	37,306,445
FUND BALANCES, END OF YEAR	\$ 15,103,436	\$ 333,010	\$ 18,580,856	\$ 34,017,302

See accompanying notes to financial statements.

City of Bella Vista, Arkansas

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Street Funds – Regulatory Basis Year ended December 31, 2021

	General Fund			Street Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State awards	\$ -	\$ 41,033	\$ 41,033	\$ -	\$ -	\$ -
Federal awards	2,839,039	3,198,554	359,515	-	-	-
Property taxes	2,982,201	3,065,205	83,004	-	-	-
Franchise taxes	1,774,929	1,846,074	71,145	-	-	-
State turnbacks	665,767	441,845	(223,922)	1,961,927	2,258,349	296,422
County road turnbacks	-	-	-	478,783	530,320	51,537
Sales taxes	9,814,728	11,444,113	1,629,385	-	-	-
Fines, forfeitures, and costs	145,384	173,824	28,440	-	-	-
Interest	64,311	161,659	97,348	-	400	400
Local permits and fees	455,330	838,154	382,824	-	-	-
Sanitation fees	323,683	306,511	(17,172)	-	-	-
Ambulance fees	836,809	964,438	127,629	-	-	-
Other	630,811	386,315	(244,496)	-	-	-
TOTAL REVENUES	20,532,992	22,867,725	2,334,733	2,440,710	2,789,069	348,359
EXPENDITURES						
General government	3,592,769	3,365,888	226,881	-	-	-
Law enforcement	4,809,300	4,747,119	62,181	-	-	-
Public safety	6,124,363	6,117,022	7,341	-	-	-
Highways and streets	-	-	-	3,710,462	3,508,209	202,253
Recreation and culture	603,928	570,853	33,075	-	-	-
Capital outlay	8,909,527	4,421,618	4,487,909	-	-	-
Debt service						
Note principal	330,395	346,853	(16,458)	-	-	-
Note interest	2,306	2,256	50	-	-	-
TOTAL EXPENDITURES	24,372,588	19,571,609	4,800,979	3,710,462	3,508,209	202,253

See accompanying notes to financial statements.

City of Bella Vista, Arkansas

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Street Funds – Regulatory Basis Year ended December 31, 2021

	General Fund			Street Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,839,596)	3,296,116	7,135,712	(1,269,752)	(719,140)	550,612
OTHER FINANCING SOURCES (USES)						
Transfers in	-	28,253	28,253	1,257,253	500,000	(757,253)
Transfers out	(1,257,253)	(500,000)	757,253	-	-	-
Bond trustee fees	-	(1,100)	(1,100)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,257,253)	(472,847)	784,406	1,257,253	500,000	(757,253)
NET CHANGE IN FUND BALANCES	(5,096,849)	2,823,269	7,920,118	(12,499)	(219,140)	(206,641)
FUND BALANCES, BEGINNING OF YEAR	12,280,167	12,280,167	-	552,150	552,150	-
FUND BALANCES, END OF YEAR	<u>\$ 7,183,318</u>	<u>\$ 15,103,436</u>	<u>\$ 7,920,118</u>	<u>\$ 539,651</u>	<u>\$ 333,010</u>	<u>\$ (206,641)</u>

See accompanying notes to financial statements.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 1: NATURE OF ACTIVITIES

The City of Bella Vista, Arkansas (the City) 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 (GASB), the following fund of the City would have been included in the reporting entity: Advertising and Promotion Commission. However, under Arkansas's regulatory basis described below, inclusion of the fund is not required the fund is not included in this report. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity* have been considered.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further below, these financial statements are presented in accordance with the regulatory basis of presentation as prescribed by Arkansas Code Annotated §10-4-412. The City maintains its records on a modified accrual basis of accounting, as discussed below. This regulatory basis of presentation and the modified accrual basis of accounting differ from accounting principles generally accepted in the United States of America. The following is a summary of the significant accounting policies:

Basis of Accounting

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Arkansas Code Annotated Section 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. 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, long-term debt, and total pension liability are not recorded in these financial statements.

Regulatory Accounting

The Arkansas Legislature enacted a law in 2005 that allows municipalities to present their financial statements in a prescribed format and also restricts the basis of accounting for this format to one of three methods. The City's governing body, however, can adopt a resolution annually to adopt GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as their reporting model in lieu of reporting on this regulatory basis established by Arkansas Code 10-4-412. The City's Council did not adopt such a resolution for 2021.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

The regulatory presentation is on a fund basis with no distinction being made as to the type of funds (Proprietary, Governmental, etc.) being presented. The required financial statements consist of a balance sheet (or statement of assets, liabilities, and fund balance), statement of revenues, expenditures, and changes in fund balance, and a statement of budget versus actual for the General Fund and the Street Fund. A schedule of capital assets is also required to be presented. Columnar headings are required for the *General Fund*, the *Street Fund* and *All Other Funds in the Aggregate*, but additional funds (columns) may be presented separately. The basis of accounting is limited to cash basis, modified cash basis or modified accrual. The City has elected to utilize the modified accrual basis of accounting.

Fund Accounting

The accounting system is organized and operated on a fund basis. 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 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 is a special revenue fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific 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 Fund and Street Fund. The following types of funds are included in this column:

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 specific purposes other than debt service or capital projects.

Debt Service Funds – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. See Note 14 for debt service funds as reported with other funds in the aggregate.

Capital Projects Funds – Capital project funds are used to account for financial resources to be used for acquisition or construction of major capital facilities which are not financed by general operating funds.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

Agency Funds - Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and have maturities that present insignificant risk of changes in value because of changes in interest rates. At December 31, 2021, the City had \$444,734 in cash equivalents.

Accounts Receivable

The City has provided an allowance for doubtful accounts as of December 31, 2021. The allowance is based on management's estimate of the overall collectability of accounts receivable, considering historical losses and economic conditions. Based on these same factors, individual accounts are charged off against the allowance when management determines those individual accounts are uncollectible. Credit extended to customers is generally uncollateralized. Past-due status is based on contractual terms. Past-due accounts are not charged interest.

Investments

Investments consist of certificates of money market funds held within an investment portfolio, certificates of deposit with original maturities greater than ninety days and governmental securities. These investments are all recorded at cost, which approximates fair value. Interest and earnings on these investments are recorded when received. Also see Note 4.

Settlements Pending

Settlements pending are considered fines, forfeitures, and costs, that have not been transferred to the appropriate entities.

Fund Balances

Fund Balances are classified and could be displayed in the following components:

Nonspendable – represents amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

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.

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).

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.

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, assigned to those purposes.

Fund balance components of the General Fund, Street Fund, and Other Funds in Aggregate are as follows:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Funds In Aggregate</u>	<u>Total</u>
Restricted:				
Law enforcement	\$ 36,512	\$ -	\$ -	\$ 36,512
Recreation and culture	30,256	-	-	30,256
Public safety	105,987	-	-	105,987
Highways and streets	-	333,010	-	333,010
Capital projects	683,499	-	18,580,856	19,264,355
American Rescue Plan	2,990,880	-	-	2,990,880
Assigned:				
Law enforcement	12,882	-	-	12,882
Recreation and culture	20,613	-	-	20,613
Public safety	76,774	-	-	76,774
Unassigned:				
General government	11,146,033	-	-	11,146,033
 Total Fund Balances	 <u>\$ 15,103,436</u>	 <u>\$ 333,010</u>	 <u>\$ 18,580,856</u>	 <u>\$ 34,017,302</u>

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

Restricted Assets

Restricted assets are cash and investment reserves restricted by state acts and bond covenants. The state acts require funds to be used for designated purposes that are outlined in the act. The bond covenants establish the reserve funds, the manner of accumulation, and allowable expenditures. The City was in compliance with restricted asset requirements as of December 31, 2021. Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first.

Advertising

The City follows the policy of charging advertising to expense as incurred.

Upcoming Accounting Pronouncements

In June 2017, the GASB issued Statement Number 87 (GASB 87), *Leases*, effective for periods beginning after June 15, 2021. GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases and governments.

Management is currently evaluating the impact of implementation of GASB 87 to the financial statements of the City and does not expect implementation to significantly impact the financial statements of the City.

Budgets and Budgetary Accounting

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

1. Prior to December 1 of each year, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. The proposed budget is discussed at a City Council meeting prior to adoption.
3. Prior to February 1, the budget is legally enacted by ordinance or resolution of the City Council.
4. Appropriation lapse at the end of each year.
5. Under certain conditions, the budget may be amended subsequent to 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.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the City to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The City maintains deposit balances in various financial institutions, and all deposit balances are carried at cost. The City classifies money market funds and certificates of deposits with original maturities of ninety days or less as "cash equivalents" for financial reporting purposes.

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/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest on which are full guaranteed by the United States of America.

The City maintains separate bank accounts in various banks. Deposits (cash and cash equivalents and certificates of deposit) at December 31, 2021, amounted to \$29,195,366, of which \$786,205 was insured with the Federal Deposit Insurance Corporation (FDIC), \$9,304,575 was collateralized by marketable securities held in the City's name and \$19,104,586 was collateralized with government securities. Cash and cash equivalents include petty cash of \$400.

NOTE 4: INVESTMENTS

Arkansas statutes authorize the City to invest in U.S. Government and its collateralized agency securities and bank certificates of deposit. A summary of investments at December 31, 2021 is as follows:

	<u>General Fund</u>	<u>Street Fund</u>	<u>Other Funds in the Aggregate</u>	<u>Total</u>
Certificates of deposit	\$ 2,459,148	\$ -	\$ -	\$ 2,459,148
Asset backed securities	133,883	-	-	133,883
Municipal bonds	50,586	-	-	50,586
Corporate bonds	<u>2,177,112</u>	<u>-</u>	<u>-</u>	<u>2,177,112</u>
Total Investments	<u>\$ 4,820,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,820,729</u>

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 5: ACCOUNTS RECEIVABLE

The accounts receivable balance at December 31, 2021 is composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Property taxes	\$ 421,126	\$ 72,862	\$ -
Franchise fees	222,283	-	-
Sales taxes	936,554	-	303,193
Fines, forfeitures, and costs	-	-	-
Sanitation fees	77,746	-	-
Advertising and promotion taxes	-	-	-
Ambulance fees, net of allowance for doubtful accounts of \$159,684	139,119	-	-
Other	41,195	-	-
	<u>\$ 1,838,023</u>	<u>\$ 72,862</u>	<u>\$ 303,193</u>

NOTE 6: FEDERAL AND STATE AWARDS

The City receives federal and state awards. These programs are subject to audit by the federal and state governments or their representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the program representatives cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 7: PROPERTY TAX

A lien attached to 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.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 8: INTERFUND TRANSFERS

During the year ended December 31, 2021, the City transferred \$500,000 from the General Fund to the Street Fund to supplement street improvements. Also, the fire construction bond fund reimbursed the general fund \$28,253 for miscellaneous charges incurred on the facility construction.

NOTE 9: 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; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in public entity risk pools. The amount of settlements has not exceeded the insurance coverage for 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 the municipalities participating in this program are revised annually based on the cost experience of the particular municipality or group as determined by the Workers' Compensation Commission.

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 - no punitive damages) imposed on municipal offices 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 percent of the program's available funds at the 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 aggregated cost for all expenses on each lawsuit. The cost deposit is not refundable.

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 the depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$10,000 for class 1 rates, \$7,500 for class 2 rates, and \$5,000 for class 3 and 4 rates. 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.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

Municipal Vehicle Program

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 \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident, and \$25,000 for property damage per accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the City.

Physical Damage - This program covers 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 the covered property.

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.

NOTE 10: RISK OF ACCOUNTING LOSS

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy is to attempt to match investment maturities with cash flow requirements. The City's investments generally are certificates of deposit with laddered maturities from one year or less up to five years.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to minimize credit risk losses due to default of security issuers or backers by limiting investments to the safest types of securities.

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.

Financial instruments that potentially subject the City to credit risk consist primarily of accounts receivable.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 11: LITIGATION

The City is subject to claims and lawsuits that arise primarily in the ordinary course of business including, but not limited to, cases of eminent domain arising from development projects. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the assets, liabilities, fund balances, revenues, expenditures and changes in fund balances, where applicable, of the City.

NOTE 12: RETIREMENT PLANS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended, was effective for the City on January 1, 2015, and established accounting and financial reporting requirements related to pensions for governmental entities whose employees are provided with pensions through pension plans that are covered by the scope set forth in the statement.

Although the pension plans in which City employees participate meet the criteria for implementation of GASB Statement No. 68, reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to *modified accrual basis* financial statements. However, required disclosures related to the description of the plans, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the *modified accrual basis* of accounting and are provided in the paragraphs that follow.

Local Police and Fire Retirement System

Plan Description

The City contributes to the Arkansas Local Police and Fire Retirement System (“LOPFI”), an agent multiple-employer defined benefit pension plan administered by the State of Arkansas. LOPFI provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The LOPFI Board of Trustees has no authority to establish and amend benefit provisions to LOPFI.

LOPFI 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 West Third Street, Suite 200, Little Rock, Arkansas 72201, by calling 1-501-682-1745, or online at www.lopfi-prb.com.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

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 contribution rates required by state law are:

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

The City is required to contribute at actuarially determined rates. The plan is also funded with state insurance tax. For 2021, the City's contribution to the plan was \$1,067,402 and the amount of insurance tax paid by the state to the plan for the benefit of the City was \$0 for the year ended December 31, 2021.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City was \$8,327,082 at December 31, 2021 (the actuarial valuation date and measurement date).

NOTE 13: NON-UNIFORMED EMPLOYEES PENSION PLAN

In June 2007, the City established a defined contribution plan for all non-uniformed and nonelected employees and has contracted with a private insurance carrier who maintains the accounts for the City. In a defined contribution plan benefits depend solely on amounts contributed to the plan, plus investment earnings. The contribution plan requires the City to contribute an amount up to two times the employee contribution, up to 10% of the employee's base salary, provided the employee contributes up to 5% of their base salary. The City's contributions shall be invested ratably in the guaranteed benefit portion of the annuity contract unless the employee chooses not to participate. Interest earned is credited to each employee's account. Eligibility to enter the plan commences immediately upon employment and employees who leave employment receive all benefits deposited in their account.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 14: COMMITMENTS

The City's commitments consist of the following:

Noncancellable Leases

The City entered into noncancelable lease agreements on May 1, 2020 and December 1, 2016 for the use of the District Court Building and Community Development Services building, respectively. The District Court Building lease terms are monthly rental payments of \$4,272 through April 30, 2023. The Community Development Services building lease terms are monthly rental payments of \$2,200 through November 30, 2024. The City is also leasing computer equipment for 36 months through April 1, 2022 and July 1, 2024 for \$6,208 and \$4,858 per month. Future minimum payments required under the above noncancelable operating leases are as follows:

Years ending December 31,					
	2022	\$	168,986		
	2023		116,185		
	2024		66,549		
		\$	351,720		

Construction Contracts

The City was contractually obligated for the following construction contracts at December 31, 2021:

<u>Project Name</u>	<u>Contract Balance December 31, 2021</u>
Street Projects	
Mercy Way Bridge and Corridor	\$ 5,672,942
Other Projects	
Fire Station #3	\$ 13,442
Fire Training Facility	1,611,180
Public Safety Facility	13,912,357
	\$ 15,536,979

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

Long-term Liabilities

The following is a summary of the City's general long-term debt at December 31, 2021:

Lease purchase agreement with Regions Bank, bearing interest at 2.09%, due in semi-annual principal and interest payments of \$49,145, secured by property and equipment, maturing August 2022.	\$ 96,938
Total general long-term debt	96,938
Compensated absences	403,814
Total Long-term Liabilities	\$ 500,752

Principal and interest maturities of the City's general long-term debt are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 96,938	\$ 1,352	\$ 98,290

Series 2020 Sales and Use Tax Bonds

In September 1, 2020, the City issued \$23,230,000 Sales and Use Tax Bonds (Series 2020) at interest rates between 1.125% & 4.000% to finance development of Fire Station #3, a new fire complex that will be used for training purposes and to house fire equipment and apparatus and any necessary land acquisition, furnishings and equipment and parking, lighting, road and utility improvements related to the Fire Station #3 and also to construct a new public safety facility to house the police department, a police and fire dispatch center and a courtroom and any necessary furnishings and equipment and parking, lighting and utility improvements related to the public safety facility. The special obligations bonds of the city mature in October 2045 with principal payments due in December and interest payments due in April and December of each year. Bond costs associated with the offering was \$256,940.

City of Bella Vista, Arkansas

Notes to Financial Statements December 31, 2021

Principal and interest maturities of the City's special purpose sales and use tax bonds are as follows:

Years ending December 31,	Principal	Interest	Total
2022	\$ 655,000	\$ 499,300	\$ 1,154,300
2023	685,000	473,100	1,158,100
2024	710,000	445,700	1,155,700
2025	740,000	417,300	1,157,300
2026	770,000	387,700	1,157,700
2027-2031	4,275,000	1,504,100	5,779,100
2032-2036	1,900,000	904,200	2,804,200
2037-2041	5,105,000	588,525	5,693,525
2042-2045	6,505,000	348,300	6,853,300
	\$ 21,345,000	\$ 5,568,225	\$ 26,913,225

NOTE 15: BENTON COUNTY SOLID WASTE DISTRICT

Benton County and the cities of Benton County, including Bella Vista, entered into an interlocal agreement pursuant to Arkansas Code Ann. § 8-6-723 creating the Benton County Solid Waste District (BCSWD). The BCSWD was established to adequately, reliably, and economically dispose of the City's and County's solid waste. Payments totaling \$38,253 were made to BCSWD during the year ended December 31, 2021.

NOTE 16: RISKS AND UNCERTAINTIES

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the City and its financial results will depend on the future developments, including the duration and spread of the outbreak within the markets in which the City operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 17: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 31, 2022, the date that the financial statements were available to be issued.

During August 2022, the City received \$2,990,845 in American Rescue Plan funds from the Department of Treasury. These funds are associated with the unforeseen financial needs and risks created by the COVID-19 pandemic.

**Required
Supplementary Information**

City of Bella Vista, Arkansas

Required Supplementary Information Schedule of Capital Assets – Unaudited December 31, 2021

Land and buildings	\$	7,636,037
Equipment		13,027,638
Infrastructure		<u>7,165,836</u>
	\$	<u><u>27,829,511</u></u>

See Independent Auditor's Report



**INDEPENDENT AUDITOR'S OPINION ON
CITY'S COMPLIANCE WITH STATE LAWS**

Honorable Mayor and City Council
City of Bella Vista, Arkansas

We have examined management's assertions that the **City of Bella Vista, Arkansas** (the City) complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2021.

- Municipal Accounting Law, §14-59-101 et seq.
- District Courts and City Courts, §§16-10-201 et seq.
- Improvement Contracts, §§22-9-202 – 22-9-204;
- Budgets, Purchases, Payments of Claims, Etc., §§14-58-201 – 14-58-203, 14-58-301 – 14-58-309
- Investment of Public Funds, §§19-1-501 – 19-1-504
- Deposit of Public Funds, §§19-8-101 – 19-8-107
- Review of Audit Report by Governing Body, §§10-4-418
- Procurement law, §§19-11-201 – 19-11-259

Management is responsible for the City's compliance with these requirements. Our responsibility is to express an opinion on the City's compliance based upon 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2021.

These conditions were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2021 financial statements, and this report does not affect our report dated August 31, 2022 on those financial statements.

Honorable Mayor and City Council
City of Bella Vista, Arkansas

This report is intended solely for the information and use of management, the City Council, the Mayor, Arkansas Division of Legislative Audit, and applicable bonding agencies and funding sources and is not intended to be and should not be used by anyone other than these specified parties.

Landmark PLC

Rogers, Arkansas
August 31, 2022



**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 Bella Vista, 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 accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the **City of Bella Vista, Arkansas** (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, and have issued our report thereon dated August 31, 2022. We issued an adverse opinion because the City prepared the financial statements on the basis of financial reporting provisions of the Arkansas Code Annotated, §10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). The effects on the financial statements between the regulatory basis of accounting and U.S. GAAP, although not readily determinable, are presumed to be material. Our report expressed an unmodified opinion that the financial statements are fairly presented, in all material respects, in accordance with the regulatory basis of accounting described in Note 2.

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 opinion 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 preceding paragraph 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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses as item 2021-001, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Honorable Mayor and City Council
City of Bella Vista, Arkansas

Compliance and Other Matters

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

The City's Response to Findings

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses under the caption "Views of Responsible Officials and Planned Corrective Actions". The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Rogers, Arkansas
August 31, 2022

City of Bella Vista, Arkansas

Schedule of Findings and Responses Year ended December 31, 2021

2021-001: Segregation of Duties – Ambulance Billing

Condition: To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording transactions should be distributed among appropriate employees. The Ambulance Accounts Manager performs ambulance accounts receivable billing, posts these amounts to the general ledger, opens the mail, handles payments received from customers, and posts customer payments to the billing system. In addition, she also has access to process credit memos, write off accounts receivable, and she reconciles the ambulance accounts receivable.

Criteria and Cause: A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize transactions, record transactions and maintain custody of assets of the City.

Effect: Under the current process, a fraudulent or incorrect transaction could be recorded by the Accounts Manager without being detected timely. This lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: We strongly suggest that the cash handling function be moved to the City Finance office and that all ambulance payments be sent to the City lockbox instead of a separate P.O. Box maintained by the Ambulance Department. Payments should be recorded by an employee not involved in the billing process. These modifications to the procedures will greatly strengthen internal controls over this area.

Views of Responsible Officials and Planned Corrective Actions: In October 2021, the City entered into an agreement with Arvest Bank to establish a lockbox for ambulance correspondence and related deposits. As of June 30, 2022, deposits and related mail go directly to the lockbox at Arvest Bank. Arvest deposits the funds and scans the related mail.