

**City of Pea Ridge, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**December 31, 2017**

LEGISLATIVE JOINT AUDITING COMMITTEE

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# Arkansas



**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair

**Rep. Richard Womack**  
House Chair  
**Rep. Mary Bentley**  
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 Pea Ridge, Arkansas Officials and Council Members  
Legislative Joint Auditing Committee

#### **Report on the Financial Statements**

We have audited the accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Pea Ridge, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

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

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

#### ***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" paragraph, the 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 City of Pea Ridge, Arkansas, as of December 31, 2017, or the revenues, expenditures, and changes in net position and, where applicable, cash flows thereof for the year then ended.

### **Unmodified Opinions on Regulatory Basis of Accounting**

In our opinion, the 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 Pea Ridge, Arkansas, as of December 31, 2017, 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.

### **Emphasis of Matter**

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

### **Other Matters**

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements. The accompanying supplementary information and other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information 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.

The other information has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2018, 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.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas  
September 5, 2018  
LOM119417

# Arkansas

**Sen. Jimmy Hickey, Jr.**  
Senate Chair  
**Sen. Lance Eads**  
Senate Vice Chair



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

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS,  
AND OTHER ISSUES BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

### INDEPENDENT AUDITOR'S REPORT

City of Pea Ridge, 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 accompanying regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of the City of Pea Ridge, Arkansas, as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 5, 2018. 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.

#### 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) to determine the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### 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 the state constitution, laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Issues

The commentary contained in this section relates to the following officials that held office during 2017:

Mayor: Jackie Crabtree  
Clerk/Treasurer: Sandy Button  
District Court Clerk: Sandy Button  
Police Chief: Ryan Walker

We reviewed the City's compliance with certain Arkansas laws concerning general and district court accounting, budgeting, purchasing, and investing and depositing of public funds.

Our audit procedures indicated that the above offices were in substantial compliance with Arkansas fiscal and financial laws.

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 result 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



Marti Steel, CPA  
Deputy Legislative Auditor

Little Rock, Arkansas  
September 5, 2018

CITY OF PEA RIDGE, ARKANSAS  
BALANCE SHEET - REGULATORY BASIS  
DECEMBER 31, 2017

Exhibit A

	General	Street	Other Funds in the Aggregate
<b>ASSETS</b>			
Cash and cash equivalents	\$ 390,826	\$ 76,691	\$ 583,298
Accounts receivable	255,847	40,728	
	<b>\$ 646,673</b>	<b>\$ 117,419</b>	<b>\$ 583,298</b>
<b>TOTAL ASSETS</b>			
	<b>\$ 646,673</b>	<b>\$ 117,419</b>	<b>\$ 583,298</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 42,500	\$ 65,519	
Settlements pending		14,932	\$ 84,457
Total Liabilities	42,500	80,451	84,457
Fund Balances:			
Restricted		36,968	68,323
Committed			430,518
Assigned	179,208		
Unassigned	424,965		
Total Fund Balances	604,173	36,968	498,841
	<b>\$ 646,673</b>	<b>\$ 117,419</b>	<b>\$ 583,298</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>			

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

CITY OF PEA RIDGE, ARKANSAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit B

	<u>General</u>	<u>Street</u>	<u>Other Funds in the Aggregate</u>
REVENUES			
State aid	\$ 76,032	\$ 329,786	\$ 20,218
Federal aid	4,000	18,603	
Property taxes	289,301	54,990	
Franchise fees	13,518		162,223
Sales taxes	1,456,717	264,542	
Fines, forfeitures, and costs	160,689	7,505	
Interest	236	151	1,884
Local permits and fees	151,200		281,517
EMS Calls	98,682		
Fire Assessments	136,072		
EMS County Funding	132,999		
Contributions from Pea Ridge Schools	77,000		
Sale of property	135,086		
Other	<u>223,765</u>	<u>18,160</u>	<u>3,389</u>
 TOTAL REVENUES	 <u>2,955,297</u>	 <u>693,737</u>	 <u>469,231</u>
 EXPENDITURES			
Current:			
General government	483,930		
Law enforcement	1,714,777		
Highways and streets	114	826,409	
Public safety	695,981		34,176
Sanitation	64,544		
Recreation and culture	171,517		
Total Current	<u>3,130,863</u>	<u>826,409</u>	<u>34,176</u>
 Debt Service:			
Bond principal			106,792
Bond interest and other charges			55,431
Note principal	98,578		
Note interest	<u>9,456</u>		
 TOTAL EXPENDITURES	 <u>3,238,897</u>	 <u>826,409</u>	 <u>196,399</u>



CITY OF PEA RIDGE, ARKANSAS  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2017

Exhibit B

	<u>General</u>	<u>Street</u>	<u>Other Funds in the Aggregate</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (283,600)</u>	<u>\$ (132,672)</u>	<u>\$ 272,832</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	15,000	45,000	
Transfers out	(45,000)		(15,000)
Proceeds from bank note	<u>340,000</u>		
TOTAL OTHER FINANCING SOURCES (USES)	<u>310,000</u>	<u>45,000</u>	<u>(15,000)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	26,400	(87,672)	257,832
FUND BALANCES - JANUARY 1	<u>577,773</u>	<u>124,640</u>	<u>241,009</u>
FUND BALANCES - DECEMBER 31	<u>\$ 604,173</u>	<u>\$ 36,968</u>	<u>\$ 498,841</u>

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

CITY OF PEA RIDGE, 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, 2017

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
State aid	\$ 76,100	\$ 76,032	\$ (68)	\$ 330,000	\$ 329,786	\$ (214)
Federal aid		4,000	4,000		18,603	18,603
Property taxes	344,300	289,301	(54,999)	57,700	54,990	(2,710)
Franchise fees	25,100	13,518	(11,582)			
Sales taxes	1,316,800	1,456,717	139,917	285,000	264,542	(20,458)
Fines, forfeitures, and costs	168,500	160,689	(7,811)	7,100	7,505	405
Interest	50	236	186		151	151
Local permits and fees	149,910	151,200	1,290			
EMS calls	105,000	98,682	(6,318)			
Fire assessments	140,000	136,072	(3,928)			
EMS County Funding	193,300	132,999	(60,301)			
Contributions from Pea Ridge Schools	85,400	77,000	(8,400)			
Sale of property		135,086	135,086			
Other	899,520	223,765	(675,755)	17,800	18,160	360
<b>TOTAL REVENUES</b>	<b>3,503,980</b>	<b>2,955,297</b>	<b>(548,683)</b>	<b>697,600</b>	<b>693,737</b>	<b>(3,863)</b>
EXPENDITURES						
Current:						
General government	900,350	483,930	416,420			
Law enforcement	1,889,500	1,714,777	174,723			
Highways and streets		114	(114)	735,500	826,409	(90,909)
Public safety	702,300	695,981	6,319			
Sanitation	75,000	64,544	10,456			
Recreation and culture	251,830	171,517	80,313			
<b>Total Current</b>	<b>3,818,980</b>	<b>3,130,863</b>	<b>688,117</b>	<b>735,500</b>	<b>826,409</b>	<b>(90,909)</b>
Debt Service:						
Lease principal				45,000		45,000
Note principal		98,578	(98,578)			
Note interest		9,456	(9,456)			
<b>TOTAL EXPENDITURES</b>	<b>3,818,980</b>	<b>3,238,897</b>	<b>580,083</b>	<b>780,500</b>	<b>826,409</b>	<b>(45,909)</b>

CITY OF PEA RIDGE, 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, 2017

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (315,000)	\$ (283,600)	\$ 31,400	\$ (82,900)	\$ (132,672)	\$ (49,772)
OTHER FINANCING SOURCES (USES)						
Transfers in		15,000	15,000	45,000	45,000	
Transfers out		(45,000)	(45,000)			
Proceeds from bank note		340,000	340,000			
TOTAL OTHER FINANCING SOURCES (USES)		310,000	310,000	45,000	45,000	0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(315,000)	26,400	341,400	(37,900)	(87,672)	(49,772)
FUND BALANCES - JANUARY 1	0	577,773	577,773	0	124,640	124,640
FUND BALANCES - DECEMBER 31	\$ (315,000)	\$ 604,173	\$ 919,173	\$ (37,900)	\$ 36,968	\$ 74,868

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

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**NOTE 1: Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City of Pea Ridge 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 fund of the City would have been included in the reporting entity: Waterworks and Sewer System Fund. However, under Arkansas's regulatory basis described below, inclusion of this fund is not required and this fund is 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.

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, property taxes, and sales 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 the Special Revenue Fund reported with other funds in the aggregate.

**Capital Projects Funds** - Capital Projects Funds are 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 reported with other funds in the aggregate.

**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 Schedules 1 and 2 for the Debt Service Fund reported with other funds in the aggregate.

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

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**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. 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.

**D. Assets, Liabilities, and Fund Balances**

Cash and Cash Equivalents

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

Settlements Pending

Settlements pending are considered fines, forfeitures, costs, payroll withholdings, and street improvement escrow funds that have not been transferred to the appropriate entities.

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.

CITY OF PEA RIDGE, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2017

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**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.

**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)	\$ 564,722	\$ 564,722
Collateralized:		
Collateral held by the City's agent, pledging bank, or pledging bank's trust department or agent in the City's name	486,093	537,671
Total Deposits	\$ 1,050,815	\$ 1,102,393

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**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.

**NOTE 4: Accounts Receivable**

The accounts receivable balance at December 31, 2017, is composed of the following:

Description	General Fund	Street Fund
Federal aid		\$ 18,603
Franchise fees	\$ 20,593	
Sales taxes	175,696	21,625
Fines, forfeitures, and costs	10,262	500
Other	49,296	
Totals	<u>\$ 255,847</u>	<u>\$ 40,728</u>

**NOTE 5: Accounts Payable**

The accounts payable balance at December 31, 2017, is composed of the following:

Description	General Fund	Street Fund
Vendor payables	<u>\$ 42,500</u>	<u>\$ 65,519</u>

**NOTE 6: Details of Fund Balance Classifications**

Fund balance classifications at December 31, 2017, are composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Fund Balances:			
Restricted for:			
Highways and streets		\$ 36,968	
Public safety			\$ 3,601
Debt service			<u>64,722</u>
Total Restricted		<u>36,968</u>	<u>68,323</u>
Committed for:			
Capital outlay			<u>430,518</u>
Assigned to:			
Public safety	\$ 41,276		
Health	4		
Recreation and culture	<u>137,928</u>		
Total Assigned	<u>179,208</u>		
Unassigned	<u>424,965</u>		
Totals	<u>\$ 604,173</u>	<u>\$ 36,968</u>	<u>\$ 498,841</u>

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**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, 2017, the legal debt limit for the bonded debt was \$11,701,594. 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, 2017, the legal debt limit for short-term financing obligations was \$3,031,812. The amount of short-term financing obligations was \$573,924, leaving a legal debt margin of \$2,457,888

**NOTE 8: Commitments**

Total commitments consist of the following at December 31, 2017:

	December 31, 2017
Long-term liabilities	\$ 2,209,999

Long-term liabilities

Long-term liabilities at December 31, 2017, are comprised of the following:

	December 31, 2017
Franchise Fee Revenue Refunding and Construction Bonds, Series 2016, totaling \$1,857,133, due in semi-annual installment of \$80,000 including interest through June 15, 2030, interest rate of 3.1%. Proceeds of \$900,422 were used for the construction of a new city hall. Payments are to be made from the Debt Service Fund.	\$ 1,636,075
Promissory Note with Community First Bank dated May 20, 2016, due in monthly instalments of \$891 through May 20, 2021, interest rate of 2.55%. Proceeds of \$50,150 to be used for the purchase of a Fire Truck. Payments are to be made from the Fire account (included within the General Fund).	34,954
Promissory Note with Community First Bank dated July 11, 2016, due in monthly installment of \$5,334 through July 11, 2021, interest of 2.55%. Proceeds of \$300,150 to be used for the construction of the new city hall. Payments are to be made from the General Fund.	218,969
Promissory Note with Arvest Bank dated July 6, 2017, due in monthly installment of \$2,531 through July 6, 2022, interest of 3.25%. Proceeds of \$140,000 to be used for the purchase of an ambulance. Payments are to be made from the Fire Account in the General Fund.	129,192
Promissory Note with First Security Bank dated September 12, 2017, due in monthly installment of \$3,592 through September 20, 2022, interest of 2.95%. Proceeds of \$200,000 to be used for the purchase of police vehicles. Payments are to be made from the General Fund.	190,809
Total Long-term liabilities	\$ 2,209,999

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



CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**NOTE 8: Commitments (Continued)**

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2017:

Years Ending December 31,	Bonds	Notes	Total
2018	\$ 160,000	\$ 148,177	\$ 308,177
2019	160,000	148,177	308,177
2020	160,000	148,177	308,177
2021	160,000	115,276	275,276
2022	160,000	50,045	210,045
2023 through 2027	800,000		800,000
2028 through 2030	383,030		383,030
Total Obligations	1,983,030	609,852	2,592,882
Less Interest	346,955	35,928	382,883
Total Principal	<u>\$1,636,075</u>	<u>\$ 573,924</u>	<u>\$2,209,999</u>

**NOTE 9: Interfund Transfers**

The General Fund transferred \$45,000 to the Street Fund to supplement street improvements. The Other Funds in the Aggregate (Impact Fee Fund) transferred \$15,000 to the General Fund to supplement capital outlay expenditures.

**NOTE 10: Pledged Revenues**

The City pledged future franchise fees to repay \$1,857,133 in bonds that were issued in 2016 to provide funding for construction of the city hall and refunding of the 2012 bond issue. Total principal and interest remaining on the bonds are \$1,636,075 and \$346,955, respectively, payable through June 15, 2030. For 2017, principal and interest paid were \$106,792 and \$55,431, respectively.

The Debt Service Fund received \$162,223 in franchise fees in 2017

**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.

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**NOTE 11: Risk Management (Continued)**

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 PEA RIDGE, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

**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. 3<sup>rd</sup>, Suite 200, Little Rock, Arkansas 72201, by calling 1-866-859-1745, or on their website [www.lopfi-prb.com](http://www.lopfi-prb.com).

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 \$143,978 and the amount of insurance tax paid by the state to the plan for the benefit of the City was \$69,645 for the year ended December 31, 2017.

Net Pension Liability

The City's proportionate share of the collective net pension liability at December 31, 2017 (actuarial valuation date and measurement date) was \$1,612,665.

CITY OF PEA RIDGE, ARKANSAS  
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -  
 REGULATORY BASIS  
 DECEMBER 31, 2017

Schedule 1

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	AGENCY FUNDS		
	Fire Equipment and Training (Act 833)	Impact Fee	Debt Service	Payroll	District Court	Totals
<b>ASSETS</b>						
Cash and cash equivalents	\$ 3,601	\$ 430,518	\$ 64,722	\$ 61,061	\$ 23,396	\$ 583,298
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Settlements pending				\$ 61,061	\$ 23,396	\$ 84,457
Fund Balances:						
Restricted	\$ 3,601		\$ 64,722			68,323
Committed		\$ 430,518				430,518
Total Fund Balances	3,601	430,518	64,722			498,841
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,601</b>	<b>\$ 430,518</b>	<b>\$ 64,722</b>	<b>\$ 61,061</b>	<b>\$ 23,396</b>	<b>\$ 583,298</b>

CITY OF PEA RIDGE, ARKANSAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2017

Schedule 2

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	
	Fire Equipment and Training (Act 833)	Impact Fee	Debt Service	Totals
REVENUES				
State aid	\$ 20,218			\$ 20,218
Franchise fees			\$ 162,223	162,223
Interest		\$ 1,180	704	1,884
Local permits and fees		281,517		281,517
Other	3,389			3,389
<b>TOTAL REVENUES</b>	<b>23,607</b>	<b>282,697</b>	<b>162,927</b>	<b>469,231</b>
EXPENDITURES				
Current:				
Public safety	34,176			34,176
Debt Service:				
Bond principal			106,792	106,792
Bond interest and other charges			55,431	55,431
<b>TOTAL EXPENDITURES</b>	<b>34,176</b>		<b>162,223</b>	<b>196,399</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(10,569)	282,697	704	272,832
OTHER FINANCING SOURCES (USES)				
Transfers out		(15,000)		(15,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(10,569)	267,697	704	257,832
FUND BALANCES - JANUARY 1	14,170	162,821	64,018	241,009
FUND BALANCES - DECEMBER 31	\$ 3,601	\$ 430,518	\$ 64,722	\$ 498,841

CITY OF PEA RIDGE, ARKANSAS  
NOTES TO SCHEDULES 1 AND 2  
DECEMBER 31, 2017

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

<u>Fund Name</u>	<u>Fund Description</u>
Fire Equipment and Training (Act 833)	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.
Impact Fee	Established by Pea Ridge Ordinance no. 352 (July 20, 2004) to receive fees assessed on new development of single or multi-family residential improvements to lands within the City's service area to fund new public facilities and capital improvements to existing facilities.
Debt Service	Pea Ridge Ordinance no. 574 (January 19, 2016) authorized the issuance and sale of a Franchise Fee Construction and Refunding Revenue Bond for the purpose of refunding prior franchise fee indebtedness (Franchise Fee Revenue Refunding Bonds, dated June 1, 2012), financing betterments and improvements to the City's municipal office and administrative facilities, and providing for the payment of principal and interest on the bond.
Payroll	Established account to facilitate the payment of payroll related expenditures.
District Court	Ark. Code Ann. § 16-10-204 established account to receive fines, forfeitures, and costs collected by the district court.

CITY OF PEA RIDGE, ARKANSAS  
OTHER INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
DECEMBER 31, 2017  
(Unaudited)

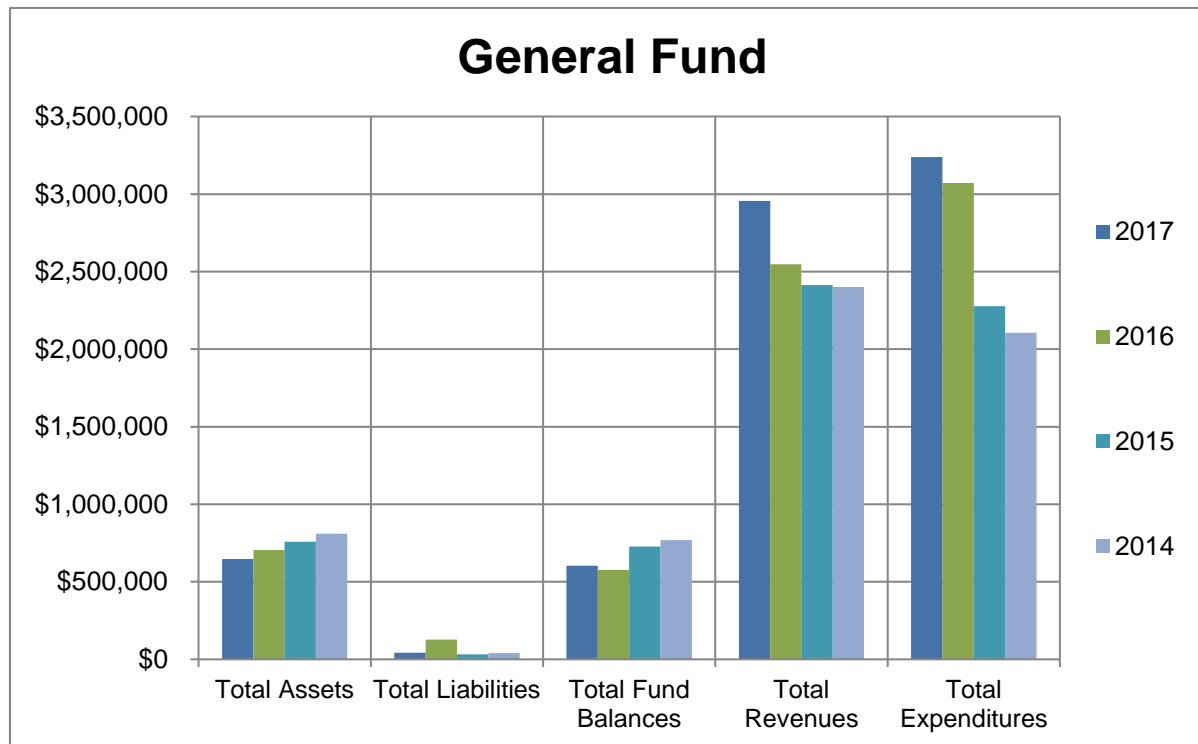
Schedule 3

	<u>December 31, 2017</u>
Land	123,814
Buildings	2,325,536
Improvements	57,979
Equipment	<u>1,663,393</u>
Total	<u>\$ 4,170,722</u>

CITY OF PEA RIDGE, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - GENERAL FUND - REGULATORY BASIS  
 DECEMBER 31, 2017  
 (Unaudited)

Schedule 4-1

<u>General</u>	2017	2016	2015	2014
Total Assets	\$ 646,673	\$ 705,479	\$ 759,170	\$ 809,761
Total Liabilities	42,500	127,706	32,012	41,149
Total Fund Balances	604,173	577,773	727,158	768,612
Total Revenues	2,955,297	2,546,392	2,413,070	2,400,321
Total Expenditures	3,238,897	3,071,356	2,277,538	2,104,940
Total Other Financing Sources/Uses	310,000	375,579	(176,986)	(147,690)

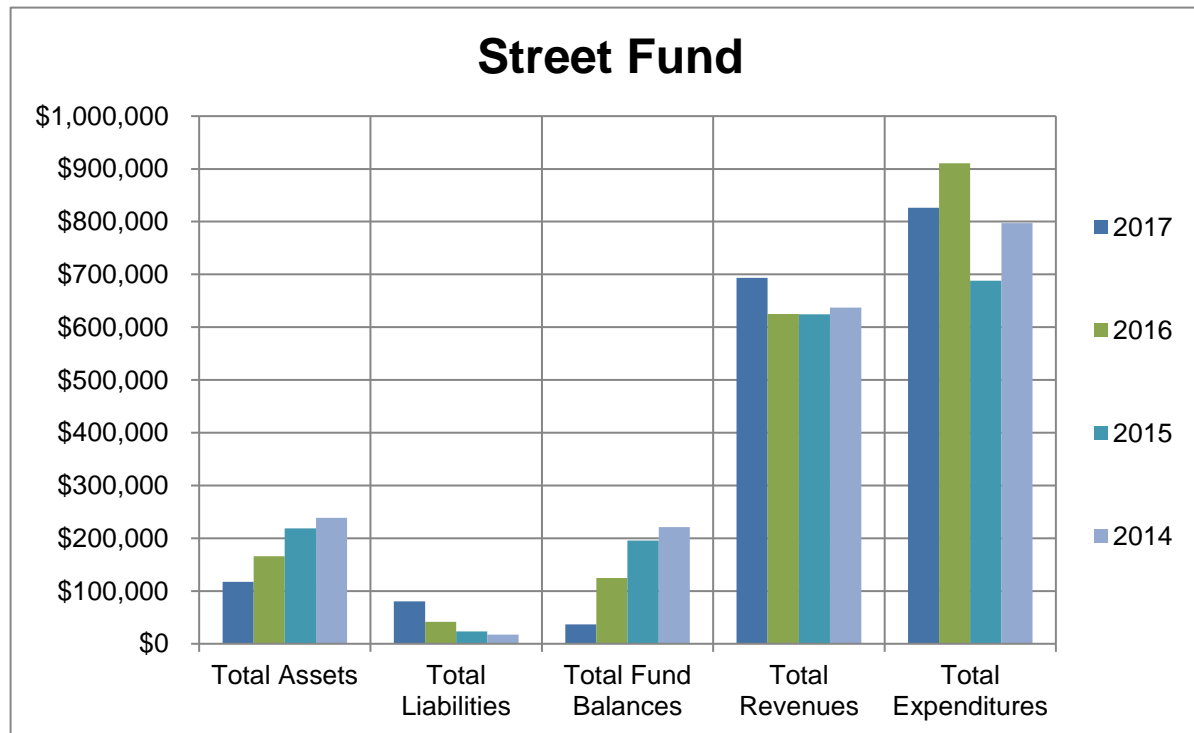




CITY OF PEA RIDGE, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - STREET FUND - REGULATORY BASIS  
 DECEMBER 31, 2017  
 (Unaudited)

Schedule 4-2

<u>Street</u>	2017	2016	2015	2014
Total Assets	\$ 117,419	\$ 165,994	\$ 218,620	\$ 238,395
Total Liabilities	80,451	41,354	23,200	17,248
Total Fund Balances	36,968	124,640	195,420	221,147
Total Revenues	693,737	624,884	624,131	637,279
Total Expenditures	826,409	910,664	688,308	797,442
Total Other Financing Sources/Uses	45,000	215,000	38,450	65,000



CITY OF PEA RIDGE, ARKANSAS  
 SCHEDULE OF SELECTED INFORMATION FOR THE LAST FOUR YEARS - OTHER FUNDS IN THE AGGREGATE - REGULATORY BAS  
 DECEMBER 31, 2017  
 (Unaudited)

<u>Other Funds in the Aggregate</u>	2017	2016	2015	2014
Total Assets	\$ 583,298	\$ 367,056	\$ 420,692	\$ 227,985
Total Liabilities	84,457	126,047	89,291	19,316
Total Fund Balances	498,841	241,009	331,401	208,669
Total Revenues	469,231	344,899	97,038	103,326
Total Expenditures	196,399	1,157,282	112,842	135,296
Total Other Financing Sources/Uses	(15,000)	721,991	138,536	82,690

