

City of Marianna, Arkansas

**Financial Statements (Modified Cash Basis),
Supplemental Information and Other Reports**

December 31, 2002

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF MARIANNA, ARKANSAS
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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. David Evans
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the City of Marianna, Arkansas, as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1(C), the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include the financial information for the Proprietary Fund Type (Water and Sewer Department), compensated absences and do not disclose certain required information concerning deposits and investments which should be included in order to conform with the basis of accounting described in Note 1(C). Because of this departure identified above, as of December 31, 2002, based on unaudited information, the Proprietary Fund Type (Water and Sewer Department) assets, liabilities, revenues and expenses for the year ended August 31, 2002 would have increased by \$4,205,003, \$84,467,881, \$798,120 and \$787,980, respectively. The effects of the omitted required financial information concerning compensated absences were not determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1(C), the assets and liabilities arising from modified cash transactions of the City of Marianna, Arkansas, as of December 31, 2002, or the revenues and expenditures for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Schedule of Funding Progress listed in the table of contents as Schedules 1, 3 and 5 and the Schedule of Contributions from the Employer and Other Contributing Entities listed as Schedules 2 and 4 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in blue ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 17, 2003
LOM105702

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Lavery
Senate Co-Vice Chair
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Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE, INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MANAGEMENT ISSUES

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

We have audited the financial statements of the City of Marianna, Arkansas, as of and for the year ended December 31, 2002 and have issued our report thereon dated December 17, 2003. In our report, our opinion was adverse because of the effects on the financial statements of not including all financial information of the reporting entity and the required information concerning compensated absences in the financial statements. Also, the required disclosures were not made concerning deposits and investments. 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.

Compliance

A. Governmental Auditing Standards

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the state constitution, laws and regulations, 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 that are required to be reported under Government Auditing Standards*.

B. State Laws

We reviewed the City's compliance with certain Arkansas laws concerning General and District Court accounting, budgeting, purchasing, bonding and investing and depositing of public funds. The City was in substantial compliance with these laws except for the General and District Court accounting laws.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The City had inadequate control over cash transactions because of insufficient segregation of duties.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above relating to inadequate segregation of duties to be a material weakness.

Other Management Issues

The commentary contained in this section relates to the following officials that held office during 2002:

Mayor: Robert Taylor
Clerk/Treasurer: Kimberly Miles
District Court Clerk: Kimberly Miles
Police Chief: Steve Davis, Johnny Walker, James E. Tucker

Our audit procedures indicated that the office of **Mayor** was in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the offices of **Clerk/Treasurer, District Court Clerk** and **Police Chief** and are cited below:

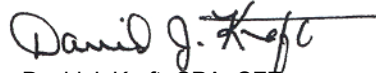
As noted in the previous audit, the **Clerk/Treasurer** did not maintain cash receipt and disbursement journals for the Community House Special Revenue Fund. The General and Street Fund journals again were not reconciled monthly to bank deposits and disbursements which precludes the ability to ensure that the **City Council** and **Mayor** receive accurate information concerning the financial position and activities of the City.

The **District Court Clerk** did not identify the bank balances with cases not yet processed through the Court as noted in the previous four (4) audits. Identification of balances is necessary to ensure that all funds are properly settled.

The **Police Chief** continues to have balances remaining in the bank not identified to receipts. Failure to identify the receipts deposited in the Bond and Fine account precludes the ability to properly disburse the funds after court date.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, City management, the federal awarding agencies and pass-through entities, if applicable and is not intended to be and should not be used by anyone other than these specified parties.

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 17, 2003

CITY OF MARIANNA, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUPS - MODIFIED CASH BASIS
 DECEMBER 31, 2002

Exhibit A

	Governmental Fund Types		Fiduciary	Account Groups		Totals
	General	Special Revenue	Trust	General Fixed Assets	General Long-Term Debt	(Memorandum
			and Agency			December 31,
						Only)
ASSETS AND OTHER DEBITS						December 31,
Cash and cash equivalents	\$ 195,300	\$ 192,700	\$ 291,926			2002
Investments	137,557	126,061	1,123,601			\$ 679,926
Interfund receivables	123,439	35,295	15,672			1,387,219
Land				\$ 615,785		174,406
Buildings				1,929,361		615,785
Equipment				1,556,061		1,929,361
Amount to be provided for retirement of general long-term debt					\$ 317,926	1,556,061
						317,926
TOTAL ASSETS AND OTHER DEBITS	\$ 456,296	\$ 354,056	\$ 1,431,199	\$ 4,101,207	\$ 317,926	\$ 6,660,684
LIABILITIES AND FUND EQUITY						
Liabilities:						
Accounts payable	\$ 19,481	\$ 2,912				\$ 22,393
Bonds, fines and costs pending			\$ 68,381			68,381
Due to other agencies	14,797					14,797
Interfund payables	24,537	123,439	26,430			174,406
Lease-purchase agreements payable					\$ 97,912	97,912
Notes payable					220,014	220,014
Total Liabilities	<u>58,815</u>	<u>126,351</u>	<u>94,811</u>		<u>317,926</u>	<u>597,903</u>
Fund Equity:						
Investment in general fixed assets				\$ 4,101,207		4,101,207
Fund balances:						
Reserved:						
Employees' pension benefits			1,230,020			1,230,020
Cemetery			106,368			106,368
Unreserved:						
Designated	58,036					58,036
Undesignated	339,445	227,705				567,150
Total Fund Equity	<u>397,481</u>	<u>227,705</u>	<u>1,336,388</u>	<u>4,101,207</u>		<u>6,062,781</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ 456,296	\$ 354,056	\$ 1,431,199	\$ 4,101,207	\$ 317,926	\$ 6,660,684

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

CITY OF MARIANNA, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit B

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Year Ended December 31, 2002
REVENUES			
Intergovernmental revenues - state	\$ 85,046	\$ 338,727	\$ 423,773
Intergovernmental revenues - federal	56,484	3,307	59,791
Property taxes	186,006	16,586	202,592
Franchise taxes	194,909		194,909
Sales taxes	597,324		597,324
Fines, forfeitures and costs	121,776	7,180	128,956
Investment income	8,711	6,543	15,254
Local permits and fees	22,385	20,100	42,485
Sanitation fees	275,098		275,098
Other	82,714	48,087	130,801
	<u>1,630,453</u>	<u>440,530</u>	<u>2,070,983</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
General government	491,184	56,832	548,016
Law enforcement	572,727	32,839	605,566
Highways and streets		366,481	366,481
Public safety	275,110		275,110
Sanitation	284,782		284,782
Health	65,125		65,125
Recreation and culture	24,978	7,569	32,547
Total Current	<u>1,713,906</u>	<u>463,721</u>	<u>2,177,627</u>
Debt service:			
Principal reduction on capital lease	21,684		21,684
Interest imputed on capital lease	5,268		5,268
	<u>1,740,858</u>	<u>463,721</u>	<u>2,204,579</u>
TOTAL EXPENDITURES			

CITY OF MARIANNA, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit B

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Year Ended December 31, 2002
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (110,405)	\$ (23,191)	\$ (133,596)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,346	101,906	103,252
Transfers out	(76,406)	(1,346)	(77,752)
Contribution to Industrial Development		(2,629)	(2,629)
TOTAL OTHER FINANCING SOURCES (USES)	(75,060)	97,931	22,871
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(185,465)	74,740	(110,725)
FUND BALANCES - JANUARY 1	582,946	152,965	735,911
FUND BALANCES - DECEMBER 31	\$ 397,481	\$ 227,705	\$ 625,186

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

CITY OF MARIANNA, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 NONEXPENDABLE TRUST FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit C

	Fiduciary Fund Type
	Nonexpendable Trust
	Cemetery Care
OPERATING REVENUES	
Cemetery lot sales	\$ 4,575
NONOPERATING REVENUES (EXPENDITURES)	
Interest revenue	4,141
Transfers to Cemetery Fund	(25,500)
TOTAL NONOPERATING REVENUES (EXPENDITURES)	(21,359)
NET INCOME (LOSS)	(16,784)
FUND BALANCES - JANUARY 1	123,152
FUND BALANCES - DECEMBER 31	\$ 106,368

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

CITY OF MARIANNA, ARKANSAS
 COMBINING STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUNDS -
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2002

Exhibit D

	Firemen's Pension	Policemen's Pension	Total December 31, 2002
ASSETS			
Cash and cash equivalents	\$ 94,761	\$ 124,846	\$ 219,607
Interfund receivables	7,806	7,818	15,624
Investments:			
Certificates of deposit	511,264		511,264
Domestic corporate bonds		117,383	117,383
Domestic stocks		241,106	241,106
Preferred securities		74,892	74,892
Mortgage-backed securities		76,574	76,574
Total Investments	511,264	509,955	1,021,219
TOTAL ASSETS	613,831	642,619	1,256,450
LIABILITIES			
Interfund payables	6,158	20,272	26,430
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	\$ 607,673	\$ 622,347	\$ 1,230,020

(Schedules of funding progress for the Firemen's and Policemen's Pension plans are presented as Schedules 1 and 3.)

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

CITY OF MARIANNA, ARKANSAS
 COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUNDS -
 MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit E

	<u>Firemen's Pension</u>	<u>Policemen's Pension</u>	<u>Total Year Ended December 31, 2002</u>
ADDITIONS			
Contributions:			
Employer	\$ 19,556	\$ 33,309	\$ 52,865
Other sources - state funds	11,514	21,234	32,748
Plan member	<u>3,651</u>	<u>2,811</u>	<u>6,462</u>
Total Contributions	<u>34,721</u>	<u>57,354</u>	<u>92,075</u>
Investment income:			
Net appreciation (depreciation) in fair value of investments		(63,083)	(63,083)
Interest	16,237	18,350	34,587
Dividends		<u>4,039</u>	<u>4,039</u>
Net investment income	<u>16,237</u>	<u>(40,694)</u>	<u>(24,457)</u>
 TOTAL ADDITIONS	 <u>50,958</u>	 <u>16,660</u>	 <u>67,618</u>
DEDUCTIONS			
Benefits	26,218	64,909	91,127
Administrative expense		<u>7,811</u>	<u>7,811</u>
 TOTAL DEDUCTIONS	 <u>26,218</u>	 <u>72,720</u>	 <u>98,938</u>
 NET INCREASE (DECREASE)	 24,740	 (56,060)	 (31,320)
 FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS			
 BEGINNING OF YEAR	 <u>582,933</u>	 <u>678,407</u>	 <u>1,261,340</u>
 END OF YEAR	 <u>\$ 607,673</u>	 <u>\$ 622,347</u>	 <u>\$ 1,230,020</u>

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

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Marianna was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The financial statements of the reporting entity include those of the City (the primary government).

B. Basis of Presentation - 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 all related liabilities and residual equities or 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. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and other funds. These include Nonexpendable and Pension Trust Funds and Agency Funds.

Account Groups

General Fixed Assets - This group of accounts is established to account for all fixed assets of the entity, other than those accounted for in the proprietary funds.

General Long-Term Debt - This group of accounts is established to account for all long-term debt of the entity, except that accounted for in the proprietary funds.

C. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures are recognized and reported in the financial statements. All funds are accounted for using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Their revenues are recognized when collected rather than when earned. Expenditures are generally recognized when the related fund liability is incurred. An exception to the general rule is principal and interest on general long-term debt which is recognized when due. General Fixed Assets and General Long-Term Debt are included as account groups.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Fixed Assets

General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets, excluding infrastructure assets, are capitalized at cost in the general fixed assets group of accounts. Gifts or contributions or general fixed assets purchased at nominal sums are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Infrastructure assets, such as bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other elements of public domain are not reported in the general fixed assets group of accounts. Such assets are immovable and of value only to the City. No depreciation has been provided on general fixed assets. Interest incurred during construction is not capitalized.

E. Property Taxes

A lien attaches to the real property in January and on personal property in June of our audit year. These taxes are collectible beginning the first business day of March of the year subsequent to our audit year. However, such taxes are not considered delinquent until after October 10 of the year subsequent to our audit.

F. Investments

Investments, except for certificates of deposit, are reported at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have available market prices or quotes are reported at estimated fair value. Certificates of deposit are reported at cost.

G. Fund Equity

Fund Balance -

1. Reserved Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes.
2. Designated Fund Balance indicates that portion of fund equity for which the entity has made tentative plans.
3. Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

H. Budgetary Controls

1. Legal Requirements

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 General and Special Revenue Funds 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.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Budgetary Controls (Continued)

1. Legal Requirements (Continued)

- c. Prior to February 1, the budget is legally enacted by action 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.

2. Accounting

The City prepared an annual budget on the modified cash basis for the General Fund and all the Special Revenue Funds except for the Community House, Airport and Arkansas Department of Economic Development Grant Funds. Formal budgetary policies are not employed for the Fiduciary Fund Types.

The following table reflects budget versus actual comparisons by fund for the year ended December 31, 2002:

Fund	December 31, 2002					
	Budgeted Revenues and Other Financing Sources	Actual Revenues and Other Financing Sources	Excess	Budgeted Expenditures and Other Financing Uses	Actual Expenditures and Other Financing Uses	Excess
General	\$ 1,830,243	\$ 1,631,799	\$ (198,444)	\$ 1,828,734	\$ 1,817,264	\$ 11,470
Special Revenue:						
Street	360,000	357,098	(2,902)	359,961	363,941	(3,980)
Arkansas Department of Economic Development Grant		2,629	2,629		2,629	(2,629)
Airport		26	26		38	(38)
Court Administration	6,240	6,240		11,000	11,476	(476)
Community House		8,269	8,269		7,569	(7,569)
Municipal Court Costs	900	1,011	111	1,350	1,346	4
Fire Protection	32,200	69,627	37,427	16,075		16,075
Cemetery	58,786	48,123	(10,663)	81,978	39,927	42,051
Housing Commission	19,000	22,614	3,614	17,500	16,868	632
Local Police and Fire Retirement Cost	29,058	26,799	(2,259)	26,271	23,902	2,369

NOTE 2: Memorandum Totals

Combined financial statements of fund types and account groups have a "total" column that aggregates the columnar statements by fund type and account group. The total column is captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 3: Public Fund Deposits and Investments

The accompanying notes to the financial statements do not include the following credit risk information required by Governmental Accounting Standards Board Statement No. 3 pertaining to the carrying amount of total deposits and investments:

A. Information disclosing whether deposits are:

- (1) Insured or collateralized with securities held by the entity or its agent in the entity's name;
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
- (3) Uncollateralized.

B. Information disclosing whether investments are:

- (1) Insured or registered, or securities held by the entity or its agent in the entity's name;
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Information concerning the extent of insurance coverage was not compiled by the entity nor readily available from their records.

NOTE 4: Legal or Contractual Provisions for Deposits and Investments

A. Governmental Fund Types

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 fully guaranteed by the United States of America.

B. Pension Trust Funds

(1) Policemen's Pension

State law provides that if the total assets of the policemen's pension trust fund are less than five hundred thousand dollars (\$500,000), the funds may be deposited or invested as noted below. If the total assets of the fund exceed five hundred thousand dollars (\$500,000), the fund may employ a professional investment advisor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

(2) Firemen's Pension

State law provides that if the total assets of the firemen's pension trust fund are less than one hundred thousand dollars (\$100,000), the funds may be deposited or invested as noted below. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), the fund may employ a professional investment advisor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 4: Legal or Contractual Provisions for Deposits and Investments (Continued)

B. Pension Trust Funds (Continued)

(3) Policemen's and Firemen's Pension Investments

The funds may be deposited or invested as noted in Note 4(A) and may include deposits in federally insured savings and loans located in the State of Arkansas and notes secured by mortgages on real estate guaranteed either by the United States government or by a corporation approved by the State Commissioner of Insurance. Investments of other types are allowed by state law, but it has not been a common practice to utilize them.

NOTE 5: Fund Presentation

The General Fund heading as it appears in the financial statements includes the following bank accounts: General, General Savings, General Reserves, Police Equipment, Sanitation Equipment, Sanitation Savings, Fire Equipment, Remodeling, Unemployment, Asset Forfeiture, Police Recreation and Police Department Block Grant.

The Special Revenue Fund heading as it appears in the financial statements includes the following funds: Street, Local Police and Fire Retirement Costs, Court Administration, Municipal Court Cost, Fire Protection, Airport, Community House, Cemetery, Arkansas Department of Economic Development Grant and Housing Commission.

NOTE 6: Public Fund Investments

A summary of investments by fund types is as follows:

<u>Fund Type</u>	December 31, 2002	
	<u>Reported Amount</u>	<u>Fair Value</u>
Governmental fund type	\$ 263,618	\$ 263,618
Fiduciary fund type	1,123,601	1,123,601
Totals	<u>\$ 1,387,219</u>	<u>\$ 1,387,219</u>

These investments are composed of the following:

	December 31, 2002	
	<u>Reported Amount</u>	<u>Fair Value</u>
Certificates of deposit	\$ 877,264	\$ 877,264
Corporate bonds and notes	117,383	117,383
Common stocks	241,106	241,106
Preferred securities	74,892	74,892
Mortgage-backed securities	76,574	76,574
Totals	<u>\$ 1,387,219</u>	<u>\$ 1,387,219</u>

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 7: Interfund Balances

Individual fund interfund receivable and payable balances are as follows:

Fund	December 31, 2002	
	Interfund Receivables	Interfund Payables
General Fund	\$ 123,439	\$ 24,537
Special Revenue Funds:		
Street	8,634	123,439
Local Police and Fire Retirement Cost	26,661	
Trust and Agency Funds:		
Police Bond and Fine	48	
Firemen's Pension	7,806	6,158
Policemen's Pension	7,818	20,272
Totals	<u>\$ 174,406</u>	<u>\$ 174,406</u>

NOTE 8: Changes in General Fixed Assets

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Land	\$ 615,785			\$ 615,785
Buildings	1,929,361			1,929,361
Equipment	1,485,349	\$ 70,712		1,556,061
Totals	<u>\$ 4,030,495</u>	<u>\$ 70,712</u>	<u>\$ 0</u>	<u>\$ 4,101,207</u>

NOTE 9: Compensated Absences

Compensated absences do vest or accumulate. Accruals for compensated absences have not been reflected in the accompanying financial statements. The effects of omitting this information were not determined.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 10: Long-Term Debt

General long-term debt at December 31, 2002 is comprised of the following:

	December 31, 2002
Note Payable - Arkansas Development Finance Authority, dated December 17, 1997. Principal payments due annually in the amount of \$7,233.80 beginning January 1, 2004. Payments are to be made from the Housing Commission Fund.	\$ 220,014
Lease-purchase agreement with Crews & Associates, Incorporated dated December 4, 2001 for the purchase of a Ford L8000 garbage truck, payable in sixty (60) monthly payments of \$2,245.99. Payments are to be paid from the General Fund.	97,912
Total Debt	\$ 317,926

NOTE 11: Changes in General Long-Term Debt

The following is a summary of transactions of the City for the year ended December 31, 2002:

	2002
General Long-Term Debt at January 1	\$ 339,610
Deletions: Lease payments	21,684
General Long-Term Debt at December 31	\$ 317,926

NOTE 12: Debt Service Requirements to Maturity - Notes Payable

Annual requirements to amortize outstanding note payable are as follows:

Years Ending December 31,	December 31, 2002		
	Principal	Interest	Total
2004	\$ 7,234		\$ 7,234
2005	7,234		7,234
2006	7,234		7,234
2007	7,234		7,234
2008 through 20033	191,078		191,078
Totals	\$ 220,014	\$ 0	\$ 220,014

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 13: Capital Leases

The City has leased certain equipment which under the Financial Accounting Standards Board Statement No. 13 (FASB 13) are treated as capital leases. These leases by category are as follows:

<u>Class of Property</u>	<u>Asset Balance December 31, 2002</u>
Sanitation Truck	\$ 119,596

The following is a schedule by years of future lease payments still remaining as of December 31, 2002:

<u>Years Ending December 31,</u>	
2003	\$ 26,952
2004	26,952
2005	26,952
2006	26,952
Total Minimum Lease Payments	107,808
Less: Amount representing interest	9,896
Net Lease Payments	\$ 97,912

NOTE 14: Legal Debt Limit - Tax Secured Bond Issues

The City is subject to a constitutional limitation for bonded indebtedness equal to twenty percent (20%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2002, the legal debt limit for the City was \$3,820,410. There were no property tax secured bond issues.

NOTE 15: Designated Fund Balance - General Fund

The City has designated a portion of the General Fund Balance as follows:

	<u>December 31, 2002</u>
Police equipment	\$ 17,475
Sanitation equipment	34,570
Law enforcement	5,991
Total	\$ 58,036

CITY OF MARIANNA, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 16: Deficit Fund Balances

The following funds have deficit fund balances as of December 31, 2002:

	December 31, 2002
Street Fund	\$ 7,775

NOTE 17: Subsequent Events

On March 5, 2003, the City issued \$2,365,000 Sales and Use Tax Capital Improvement Bonds. The bond proceeds will be used to pay for the cost of constructing and renovating the city's firefighting facilities and jail.

NOTE 18: Nonuniformed Employee's Pension Plan (A Defined Contribution Plan)

The City has contracted with a private insurance carrier to provide a defined contribution plan for its nonuniformed workers. 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 4½% and the employee to contribute 4½% of the employee's annual compensation. Normal retirement is at age sixty-five (65). The contributions and earnings are vested at a rate of twenty percent (20%) per year after the second year of employment until fully vested after six (6) years of service. Employees are entitled only to the funds deposited by them and in their behalf, therefore, there is no unfunded liability.

NOTE 19: 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 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 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 - 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 percent 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 \$2,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 19: Risk Management (Continued)

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 \$1,000 deductible per occurrence.

NOTE 20: Firemen's Pension and Relief Plan

Plan Description

The Firemen's Pension and Relief Plan is a single-employer defined benefit pension plan that covers municipal firemen employed prior to January 1, 1983. The plan, administered by the City, provides retirement, disability and survivor benefits. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. State law does provide that upon actuarial soundness of the plan, the Board may increase retirement benefits. At December 31, 2001, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	21*
--	-----

The plan was closed to new entrants on January 1, 1983. The plan does not issue a stand-alone financial report but is included in the City's financial report.

Summary of Significant Accounting Policies

Basis of Accounting. The Firemen's Pension and Relief Plan financial statements are prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Contributions are recognized when paid rather than when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Certificates of deposit are reported at cost.

Contributions

Active participants of the plan are required to make contributions of not less than six percent (6%) of their salary to the plan. Active volunteer firemen are required to make contributions of twelve dollars (\$12) per year. The City is required by state law to contribute an amount equal to but not less than six percent (6%) of the participant's salary and an amount equal to the contribution paid by any volunteer fireman. The plan is also funded with state insurance tax and property tax on real estate and personal property. If the funds in the plan should be insufficient to make full payment of the amount of pensions to all persons entitled, then the funds shall be prorated among those entitled by the proper authorities as may be deemed just and equitable.

CITY OF MARIANNA, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 20: Firemen's Pension and Relief Plan (Continued)

Annual Pension Cost and Net Pension Obligation

The annual pension cost for the plan for the current year is \$24,663. The employer's contribution to the plan for the current year is \$19,556 and the contributions from other contributing entities are \$11,514. Any difference between the annual pension cost and the employer's contributions and the contributions from other contributing entities has not been reflected in the City's financial statements because the City is not obligated to pay the statutorily required benefits if the plan's assets are not sufficient.

* Information obtained from actuarial report

NOTE 21: Policemen's Pension and Relief Plan

Plan Description

The Policemen's Pension and Relief Plan is a single-employer defined benefit pension plan that covers municipal policemen employed prior to January 1, 1983. The plan, administered by the City, provides retirement, disability and survivor benefits. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. State law does provide that upon actuarial soundness of the plan, the Board may increase retirement benefits. At December 31, 2001, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	6*
Active members	3*

The plan was closed to new entrants on January 1, 1983. The plan does not issue a stand-alone financial report but is included in the City's financial report.

Summary of Significant Accounting Policies

Basis of Accounting. The Policemen's Pension and Relief Plan financial statements are prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Contributions are recognized when paid rather than when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

CITY OF MARIANNA, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

NOTE 21: Policemen's Pension and Relief Plan (Continued)

Contributions

Active participants of the plan are required to make contributions of six percent (6%) of their salary to the plan, provided that such monthly deduction shall be four percent (4%) for policemen contributing to the social security system unless increased, but not to exceed six percent (6%), by the majority of the contributing members of the police department covered by social security. The City is required by state law to contribute an amount equal to but not less than six percent (6%) of the participant's salary; provided, however, that the City's contributions shall not exceed the amount contributed by the policemen except where authorized by appropriation of the City's governing body. The plan is also funded with state insurance tax; property tax on real estate and personal property and ten percent (10%) of all fines and forfeitures collected by the police department of such City. If the funds in the plan should be insufficient to make full payment of the amount of pensions to all persons entitled, the beneficiaries shall be paid prorating the funds available among them.

Annual Pension Cost and Net Pension Obligation

The annual pension cost for the plan for the current year is \$57,114. The employer's contribution to the plan for the current year is \$33,309 and the contributions from other contributing entities are \$21,234. Any difference between the annual pension cost and the employer's contributions and the contributions from other contributing entities has not been reflected in the City's financial statements because the City is not obligated to pay the statutorily required benefits if the plan's assets are not sufficient.

*Information obtained from actuarial report.

NOTE 22: 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, P. O. Drawer 34164, Little Rock, Arkansas 72203 or by calling 1-501-682-1745.

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: 6% of gross pay
- B. Paid service also covered by Social Security: no employee contribution
- C. Volunteer fire service: no employee contribution

CITY OF MARIANNA, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2002

NOTE 22: Local Police and Fire Retirement System (LOPFI)
 (A Defined Benefit Pension Plan) (Continued)

Funding Policy (Continued)

The City is required to contribute at an actuarially determined rate; the current rate is 8.13% of annual covered payroll for paid service police and \$9.49 per month, per member for volunteer service fire. 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.

Annual Pension Cost

For 2002, the City's annual pension cost was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2000 revised actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.1% to 9.1% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4%. The actuarial value of assets was equal to reported book value, adjusted to partially recognize the difference between book value and market value. Changes in accumulated unrealized appreciation/depreciation are spread over five (5) year periods. The City's unfunded actuarial accrued liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period was 30 years.

Trend Information for LOPFI

	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Paid Service Police</u>			
Annual Pension Cost (APC)	\$ 21,435	\$ 19,733	\$ 17,069
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ 0	\$ 0	\$ 0
<u>Volunteer Service Fire</u>			
Annual Pension Cost (APC)	\$ 2,306	\$ 2,244	\$ 2,096
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ 0	\$ 0	\$ 0

CITY OF MARIANNA, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 FIREMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 1

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) [Entry Age] (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
12/31/2001	\$ 591,057	\$ 656,958	\$ 65,901	90%	\$ 52,132	126%
12/31/1999	530,210	644,885	114,675	82%	58,184	197%
12/31/1997	471,762	635,274	163,512	74%	58,242	281%

Assets are valued at market beginning 12-31-97.

CITY OF MARIANNA, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
 FIREMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 2

<u>Year Ended December 31,</u>	<u>Employer Contributions</u>		<u>Other Entities Contributions</u>	
	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ 24,663	79%	\$ 11,514	100%
2001	23,480	49%	12,133	100%
2000	29,526	38%	16,936	100%
1999	36,286	32%	20,135	100%
1998	34,669	32%	15,997	100%

CITY OF MARIANNA, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 POLICEMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 3

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) [Entry Age] (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
12/31/2001	\$ 678,558	\$ 955,734	\$ 277,176	71%	\$ 90,666	306%
12/31/1999	613,716	929,374	315,658	66%	85,433	369%
12/31/1997	543,269	839,609	296,340	65%	101,938	291%

Assets are valued at market beginning 12-31-97.

CITY OF MARIANNA, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
 POLICEMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 4

<u>Year Ended December 31,</u>	<u>Employer Contributions</u>		<u>Other Entities Contributions</u>	
	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ 57,114	58%	\$ 21,234	100%
2001	73,575	38%	20,966	100%
2000	64,767	42%	13,982	100%
1999	48,682	59%	19,149	100%
1998	61,077	51%	21,081	100%

CITY OF MARIANNA, ARKANSAS
 NOTE TO THE SCHEDULE OF FUNDING PROGRESS
 AND SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Firemen's Pension and Relief Fund</u>	<u>Policemen's Pension and Relief Plan</u>
Valuation date	12/31/01	12/31/01
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed
Remaining amortization period	6 years	6 years
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	6%	6%
Projected salary increases*	4.2-8.0%	4.2-8.0%
*Includes inflation at	4%	4%
Cost-of-living adjustments	None	None

CITY OF MARIANNA, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 LOCAL POLICE AND FIRE RETIREMENT PLAN
 (Unaudited)

Schedule 5

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) [Entry Age] (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
Paid Service Police						
12/31/2002	\$ 687,787	\$ 378,369	\$ (309,418)	182%	\$ 263,648	(117%)
12/31/2001	636,146	195,653	(440,493)	325%	267,381	(165%)
12/31/2000	569,007	284,218	(284,789)	200%	228,199	(125%)
Volunteer Service Fire						
12/31/2002	61,436	65,913	4,477	93%	N/A	N/A
12/31/2001	56,210	32,918	(23,292)	171%	N/A	N/A
12/31/2000	49,772	27,035	(22,737)	184%	N/A	N/A