

City of Lepanto, Arkansas

Regulatory Basis Financial Statements and Other Reports

December 31, 2021

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF LEPANTO, ARKANSAS
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE

ARKANSAS LEGISLATIVE AUDIT

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the regulatory basis financial statements of the City of Lepanto, Arkansas (City), which are comprised of the Balance Sheet – Regulatory Basis for the general fund, street fund, and other funds in the aggregate as of December 31, 2021, and the related Statements of Revenues, Expenses, and Changes in Fund Balances and Budget and Actual – General and Street Funds – Regulatory Basis for the year then ended, and the related notes to the financial statements.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the accompanying regulatory basis financial statements referred to above present fairly, in all material respects, the regulatory basis financial position of the general fund, street fund, and other funds in the aggregate of the City of Lepanto, Arkansas as of December 31, 2021; the regulatory basis revenues, expenditures, and changes in net position; and the budgetary comparisons for the general fund and street fund for the year then ended, in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412 described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the accompanying regulatory basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the general fund, street fund, and other funds in the aggregate of the City of Lepanto, Arkansas, as of December 31, 2021, or the revenues, expenditures, and changes in net position and, where applicable, cash flows thereof for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Regulatory Basis Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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 Governmental Accounting Standards Board. However, under the regulatory basis, this fund is not required to be included as part of the reporting entity. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Ark. Code Ann. § 10-4-412, as described in Note 1, to meet the requirements permitted by the State of Arkansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Regulatory Basis Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatements of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



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

Little Rock, Arkansas
September 22, 2022
LOM105121



LEGISLATIVE JOINT AUDITING COMMITTEE **ARKANSAS LEGISLATIVE AUDIT**

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of the general fund, street fund, and other funds in the aggregate of City of Lepanto, Arkansas (City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's regulatory basis financial statements, and have issued our report thereon dated September 22, 2022. We issued an adverse opinion because the financial statements are prepared by the City on the basis of the financial reporting provisions of Ark. Code Ann. § 10-4-412, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the regulatory basis of accounting described in Note 1, our opinions on the general fund, street fund, and other funds in the aggregate were unmodified.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

We also reported to management of the City in a separate letter dated September 22, 2022.

Purpose of This Report

The purpose of this report is solely to described the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

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

Timothy R. Jones, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 22, 2022

Arkansas

Sen. Ronald Caldwell
Senate Chair

Sen. Gary Stubblefield
Senate Vice Chair



Roger A. Norman, JD, CPA, CFE, CFF
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House Vice Chair

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

MANAGEMENT LETTER

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

The commentary contained in this letter relates to the following officials who held office during 2021:

Mayor: Earnie Hill
Recorder/Treasurer: Tammy Wyatt
District Court Clerk: Regina Gipson
Police Chief: Chad Henderson
Park and Recreation Commission: Jeremy Gordon

We would like to communicate the following items that came to our attention during this audit. The purpose of such comments is to provide constructive feedback and guidance, in an effort to assist management in maintaining a satisfactory level of compliance with the state constitution, laws and regulations, and to improve internal control. These matters were discussed previously with City officials during the course of our audit fieldwork and at the exit conference.

MAYOR AND POLICE CHIEF

The Police Chief was allowed to take 34 days of sick leave before the leave was earned, resulting in a salary overpayment of \$5,210. This arrangement appears to conflict with Ark. Const. art. 12, § 5, which prohibits cities from loaning credit to any individual. A similar finding was noted in the previous report.

PARK AND RECREATION COMMISSION

The following issues were noted concerning the Park Commission Fund:

- Bank reconciliations were not prepared.
- Cash receipts and disbursements journals were not established.
- Prenumbered receipts were not issued for all revenues received and bank deposit slips were not provided.
- Supporting documentation was not provided for all disbursements.

A similar finding was noted in the previous report.

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

ARKANSAS LEGISLATIVE AUDIT

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Timothy R. Jones, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
September 22, 2022

CITY OF LEPANTO, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2021

Exhibit A

| | General | Street | Other Funds in the Aggregate |
|-------------------------------------|-------------------|-------------------|------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 88,916 | \$ 60,802 | \$ 641,342 |
| Investments | | | 129,859 |
| Accounts receivable | 77,424 | 63 | 19,040 |
| | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | <u>\$ 166,340</u> | <u>\$ 60,865</u> | <u>\$ 790,241</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,984 | \$ 3,056 | \$ 1,911 |
| Settlements pending | | | 38,361 |
| Total Liabilities | <u>1,984</u> | <u>3,056</u> | <u>40,272</u> |
| Fund Balances: | | | |
| Restricted | | 57,809 | 739,913 |
| Committed | | | 7,416 |
| Assigned | 1,496 | | 2,640 |
| Unassigned | 162,860 | | |
| Total Fund Balances | <u>164,356</u> | <u>57,809</u> | <u>749,969</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 166,340</u> | <u>\$ 60,865</u> | <u>\$ 790,241</u> |

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

CITY OF LEPANTO, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021

Exhibit B

| | General | Street | Other Funds in the Aggregate |
|--|-----------|------------|------------------------------------|
| REVENUES | | | |
| State aid | \$ 30,327 | \$ 152,805 | \$ 98,125 |
| Federal aid | | | 187,189 |
| Property taxes | 17,702 | 10,277 | 4,113 |
| Franchise fees | 73,200 | | |
| Sales taxes | 446,582 | | 236,846 |
| Fines, forfeitures, and costs | 34,847 | | 5,654 |
| Interest | 31 | 14 | 3,756 |
| Local permits and fees | 84,133 | | |
| Sanitation fees | 176,244 | | |
| Park fees, rentals, sales | | | 8,779 |
| Employee contributions | | | 7,736 |
| Net increase/(decrease) in fair value of investments | | | (3,746) |
| Other | 48,067 | 329 | 678 |
| TOTAL REVENUES | 911,133 | 163,425 | 549,130 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 78,387 | | |
| Law enforcement | 509,686 | | 16,105 |
| Highways and streets | | 162,574 | |
| Public safety | 37,253 | | 53,671 |
| Sanitation | 135,909 | | |
| Health | 42,924 | | |
| Recreation and culture | 3,794 | | 96,983 |
| Total Current | 807,953 | 162,574 | 166,759 |
| Debt Service: | | | |
| Bond principal | | | 160,000 |
| Bond interest and other charges | | | 17,427 |
| Note principal | 18,660 | | |
| Note interest | 669 | | |
| TOTAL EXPENDITURES | 827,282 | 162,574 | 344,186 |

CITY OF LEPANTO, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2021

Exhibit B

| | General | Street | Other Funds in the Aggregate |
|--|------------|-----------|------------------------------------|
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | \$ 83,851 | \$ 851 | \$ 204,944 |
| OTHER FINANCING SOURCES (USES) Sales tax remitted to water department | (102,329) | | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (18,478) | 851 | 204,944 |
| FUND BALANCES - JANUARY 1 | 182,834 | 56,958 | 545,025 |
| FUND BALANCES - DECEMBER 31 | \$ 164,356 | \$ 57,809 | \$ 749,969 |

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

CITY OF LEPANTO, 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, 2021

Exhibit C

| | General | | | Street | | |
|--|-----------|------------|--|------------|------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| REVENUES | | | | | | |
| State aid | \$ 30,330 | \$ 30,327 | \$ (3) | \$ 152,808 | \$ 152,805 | \$ (3) |
| Property taxes | 12,970 | 17,702 | 4,732 | 10,275 | 10,277 | 2 |
| Franchise fees | 84,500 | 73,200 | (11,300) | | | |
| Sales taxes | 343,280 | 446,582 | 103,302 | | | |
| Fines, forfeitures, and costs | 32,450 | 34,847 | 2,397 | | | |
| Interest | 23 | 31 | 8 | 13 | 14 | 1 |
| Local permits and fees | 83,115 | 84,133 | 1,018 | | | |
| Sanitation fees | 175,350 | 176,244 | 894 | | | |
| Other | 61,690 | 48,067 | (13,623) | 330 | 329 | (1) |
| TOTAL REVENUES | 823,708 | 911,133 | 87,425 | 163,426 | 163,425 | (1) |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 143,781 | 78,387 | 65,394 | | | |
| Law enforcement | 464,774 | 509,686 | (44,912) | | | |
| Highways and streets | | | | 162,124 | 162,574 | (450) |
| Public safety | 36,910 | 37,253 | (343) | | | |
| Sanitation | 128,066 | 135,909 | (7,843) | | | |
| Health | 42,925 | 42,924 | 1 | | | |
| Recreation and culture | 3,910 | 3,794 | 116 | | | |
| Total Current | 820,366 | 807,953 | 12,413 | 162,124 | 162,574 | (450) |
| Debt Service: | | | | | | |
| Note principal | 21,009 | 18,660 | 2,349 | | | |
| Note interest | 669 | 669 | 0 | | | |
| TOTAL EXPENDITURES | 842,044 | 827,282 | 14,762 | 162,124 | 162,574 | (450) |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (18,336) | 83,851 | 102,187 | 1,302 | 851 | (451) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Sales tax remitted to water department | | (102,329) | (102,329) | | | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | (18,336) | (18,478) | (142) | 1,302 | 851 | (451) |
| FUND BALANCES - JANUARY 1 | 117,860 | 182,834 | 64,974 | 59,484 | 56,958 | (2,526) |
| FUND BALANCES - DECEMBER 31 | \$ 99,524 | \$ 164,356 | \$ 64,832 | \$ 60,786 | \$ 57,809 | \$ (2,977) |

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

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Lepanto 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: Water and Sewer 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.

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

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

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

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

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

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

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

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 as reported with other funds in the aggregate.

Pension Trust Funds - Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of pension plans. See Schedules 1 and 2 for the Pension Trust Fund as reported with other funds in the aggregate.

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

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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. Liabilities incurred by the government on or before the end of the current period that are paid within 60 days of the end of the current period, are considered to be expenditures of the current period. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. As a result of the use of this regulatory basis of accounting, capital assets and long-term debt are not recorded in these financial statements. Pension trust funds are reported in a separate column as a part of supplementary information in order to provide users a better understanding of the entity as a whole.

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

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand accounts, certificates of deposit, and U.S. government guaranteed accounts.

Investments

Investments are reported at fair value.

Settlements Pending

Settlements pending are considered fines, forfeitures, costs, payroll withholdings, and sales taxes 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.

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 1: Summary of Significant Accounting Policies

E. Property Taxes

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

F. Budget Law

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

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

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

Basis of Accounting

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

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.

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

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) | \$ 254,323 | \$ 254,323 |
| Collateralized: | | |
| Collateral held by the City's agent, pledging bank or pledging bank's trust department or agent in the City's name | 344,243 | 362,148 |
| Uncollateralized | 191,829 | 191,829 |
| Total Deposits | <u>\$ 790,395</u> | <u>\$ 808,300</u> |

The above total deposits do not include cash on hand of \$665.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The city does not have a deposit policy for custodial credit risk. As of December 31, 2021, \$191,829 of the City's bank balances were exposed to custodial credit risk. The balances exposed to custodial credit risk were deposited in money market accounts consisting of federated treasury obligations, which are not insured or collateralized.

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.

Pension Trust Funds

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

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 4: Public Fund Investments

A summary of investments by fund types is as follows:

| Fund Type | <u>December 31, 2021</u> Fair Value |
|---------------|--|
| Pension Trust | <u>\$ 129,859</u> |

Investments are reported at fair value. Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* establishes a hierarchy based on the valuation assumptions used to measure the fair value of the asset as follows:

- **Level I** – quoted prices in active markets for identical assets
- **Level II** – significant other observable assumptions (e.g., quoted prices for similar instruments in active or inactive markets, etc.)
- **Level III** – significant unobservable assumptions (i.e., prices or valuations using unobservable techniques supported by little or no market activity.)

The City's investments are composed of the following:

| <u>December 31, 2021</u> Investment Type | Quoted Prices in Active Markets for Identical Investments Level I |
|---|--|
| Mutual funds | <u>\$ 129,859</u> |

Other required disclosures for investments:

- **Credit Risk** – Credit risk is the risk that the issuer or the counterparty to an investment will not fulfill its obligations. The City's investment subject to risk at December 31, 2021 were \$129,859 (100%). Morningstar Rating Service rated the fixed income funds on five levels ranging from low to high. The Morningstar rating for these investments were rated as follows: \$80,790 (62%) above average and \$49,069 (38%) high.
- **Interest Rate Risk** – Interest rate risk is the risk that the value of investments will be reduced when market interest rates climb higher than the rate of investment. The City invests in mutual funds which hold investments in corporate bonds. The City's investments subject to interest rate risk as of December 31, 2021 were \$129,859 (100%).

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 5: Accounts Receivable

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

| Description | General Fund | Street Fund | Other Funds in the Aggregate |
|-------------------------------|------------------|--------------|---------------------------------|
| Property taxes | \$ 108 | \$ 63 | \$ 25 |
| Franchise fees | 6,507 | | |
| Sales taxes | 27,585 | | 18,622 |
| Fines, forfeitures, and costs | 3,772 | | 393 |
| Local permits and fees | 4,744 | | |
| Sanitation fees | 14,933 | | |
| Other | 19,775 | | |
| Totals | <u>\$ 77,424</u> | <u>\$ 63</u> | <u>\$ 19,040</u> |

NOTE 6: Accounts Payable

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

| Description | General Fund | Street Fund | Other Funds in the Aggregate |
|-----------------------|-----------------|-----------------|---------------------------------|
| Vendor payables | \$ 1,879 | \$ 3,056 | \$ 1,911 |
| Payroll taxes payable | 105 | | |
| Totals | <u>\$ 1,984</u> | <u>\$ 3,056</u> | <u>\$ 1,911</u> |

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 7: Details of Fund Balance Classifications

Fund balance classifications at December 31, 2021, are composed of the following:

| Description | General Fund | Street Fund | Other Funds in the Aggregate |
|----------------------------------|-------------------|------------------|---------------------------------|
| Fund Balances: | | | |
| Restricted for: | | | |
| General government | | | \$ 187,189 |
| Law enforcement | | | 2,571 |
| Highways and streets | | \$ 57,809 | |
| Public safety | | | 58,146 |
| Recreation and culture | | | 152,231 |
| Police and fire retirement costs | | | 2,520 |
| Pension benefits | | | 130,529 |
| Debt service | | | 206,727 |
| Total Restricted | | <u>57,809</u> | <u>739,913</u> |
| Committed for: | | | |
| Law enforcement | | | 830 |
| Social services | | | 6,586 |
| Total Committed | | | <u>7,416</u> |
| Assigned to: | | | |
| Law enforcement | \$ 1,496 | | |
| Pension benefits | | | 2,640 |
| Total Assigned | <u>1,496</u> | | <u>2,640</u> |
| Unassigned | <u>162,860</u> | | |
| Totals | <u>\$ 164,356</u> | <u>\$ 57,809</u> | <u>\$ 749,969</u> |

NOTE 8: 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, 2021, the legal debt limit for the bonded debt was \$2,133,199. 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, 2021, the legal debt limit for short-term financing obligations was \$559,827. The amount of short-term financing obligations, was \$4,887 leaving a legal debt margin of \$554,940.

NOTE 9: Commitments

Total commitments consist of the following at December 31, 2021:

| | |
|-----------------------|----------------------|
| | December 31, 2021 |
| Long-term liabilities | <u>\$ 266,863</u> |

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 9: Commitments (Continued)

Long-term liabilities

Long-term liabilities at December 31, 2021, are comprised of the following:

| | December 31, 2021 |
|--|----------------------|
| <u>Bonds</u> | |
| Sales and Use Tax Bonds payable dated June 1, 2007, in the amount of \$1,560,000 due in annual installments of varying amounts through June 1, 2026; interest of 4.00% - 5.20%. Payments are made from the 2007 Sales and Use Tax Debt Service Fund. | \$ 245,000 |
| <u>Direct Borrowings</u> | |
| Note payable dated August 9, 2017, with First Community Bank in the amount of \$32,292 for the purchase of two police cars; 60 monthly payments of \$625, at 5.89% interest. Payments are to be made from the General Fund. | 4,887 |
| Compensated absences consisting of accrued vacation and sick leave adjusted to current salary cost. | 16,976 |
| Total Long-term liabilities | <u>\$ 266,863</u> |

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

The City's outstanding bonds payable of \$245,000 contain a provision that in an event of default, the Trustee may, and upon written request of the owners of not less than 10% in principal amount of the bonds then outstanding shall, by proper suit compel the performance of the duties of the officials of the City and officials of the State to take any action or obtain any proper relief in law or equity available under the Constitution and laws of the State.

The City's outstanding note from direct borrowings of \$4,887 contains a provision that in an event of default, outstanding amount, at the Lender's sole option, may be declared immediately due and payable, and the Lender may exercise any rights and remedies, including the right to immediate possession of the collateral, available to it under applicable law.

Long-Term Debt Issued and Outstanding

| Date of Issue | Date of Final Maturity | Rate of Interest | Amount Authorized and Issued | Debt Outstanding December 31, 2021 | Maturities to December 31, 2021 |
|--------------------------|---------------------------|---------------------|------------------------------------|--|---------------------------------------|
| <u>Bonds</u> | | | | | |
| 6/1/07 | 6/1/26 | 4.0-5.2% | \$ 1,560,000 | \$ 245,000 | \$ 1,315,000 |
| <u>Direct Borrowings</u> | | | | | |
| 8/9/17 | 8/15/22 | 5.89% | 32,292 | 4,887 | 27,405 |
| Total Long-Term Debt | | | <u>\$ 1,592,292</u> | <u>\$ 249,887</u> | <u>\$ 1,342,405</u> |

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 9: Commitments (Continued)

Changes in Long-Term Debt

| | Balance January 01, 2021 | Retired | Balance December 31, 2021 |
|--------------------------|-----------------------------|-------------------|------------------------------|
| Bonds payable | \$ 405,000 | \$ 160,000 | \$ 245,000 |
| <u>Direct Borrowings</u> | | | |
| Notes payable | 23,547 | 18,660 | 4,887 |
| Total Long-Term Debt | <u>\$ 428,547</u> | <u>\$ 178,660</u> | <u>\$ 249,887</u> |

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2021:

| Years Ending December 31, | Bonds | | | Direct Borrowings | | |
|------------------------------|-------------------|------------------|-------------------|-------------------|---------------|-----------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2022 | \$ 45,000 | \$ 11,412 | \$ 56,412 | \$ 4,887 | \$ 113 | \$ 5,000 |
| 2023 | 50,000 | 9,100 | 59,100 | | | |
| 2024 | 50,000 | 6,500 | 56,500 | | | |
| 2025 | 55,000 | 3,770 | 58,770 | | | |
| 2026 | 45,000 | 1,170 | 46,170 | | | |
| Totals | <u>\$ 245,000</u> | <u>\$ 31,952</u> | <u>\$ 276,952</u> | <u>\$ 4,887</u> | <u>\$ 113</u> | <u>\$ 5,000</u> |

NOTE 10: Pledged Revenues

The City pledged future 1% sales and use taxes to repay \$1,560,000 in bonds that were issued in 2007 to provide funding for construction of new sports complex and for other purposes. Total principal and interest remaining on the bonds are \$245,000 and \$31,952, respectively, payable through June 1, 2026. For 2021, principal and interest and other charges paid were \$160,000 and \$17,427, respectively.

The Debt Service Fund received \$189,477 in sales taxes in 2021. Any sales taxes collected in excess of debt service payments on these bonds is permitted to be used for the early extinguishment of debt.

NOTE 11: Related Party Transactions

As a convenience to customers, the Water and Sewer System includes fees of city-provided garbage collection in the monthly customer's billings. These fees are remitted to the General Fund periodically and totaled \$176,244.

The City charges the Water and Sewer System 5% of City water revenues in lieu of franchise fees. The amount paid by the System was \$5,676. The City also receives rent from the System in the amount of \$2,400.

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 12: Risk Management

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

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

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

Municipal Vehicle Program

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

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

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

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

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 13: 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. 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.

Contributions

Active participants of the plan are required to make contributions of not less than 6% of their salary to the plan. Active volunteer firemen are required to make contributions of \$12 per year. The City is required by state law to contribute an amount equal to but not less than 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. The City made no contribution for the year ended December 31, 2021. The requirements of Governmental Accounting Standards Board Statement no. 68, under the regulatory basis of accounting, are limited to disclosure of the City's net pension liability. Based on the December 31, 2021 actuarial valuation, the plan has a net pension liability of \$15,266.

**NOTE 14: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan)**

Plan Description

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

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 \$11,946 and the amount of insurance tax paid by the state to the plan for the benefit of the City was \$19,964 for the year ended December 31, 2021.

Net Pension Liability

The requirements of Governmental Accounting Standards Board Statement no. 68, under the regulatory basis of accounting, are limited to disclosure of the City's share of the collective net pension liability. The City's proportionate share of the collective net pension liability at December 31, 2021 (actuarial valuation date and measurement date) was \$166,013.

CITY OF LEPANTO, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

NOTE 15: Arkansas Public Employees Retirement System

Plan Description

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

Funding Policy

APERS has contributory and non-contributory plans. Contributory members are required by State law to contribute 5% of their salary. Each participating employer is required by State law to contribute at a rate established by the Board of Trustees of the system, based on the annual actuarial valuation. The City's contribution to the plan was \$45,935 for the year ended June 30, 2021.

Net Pension Liability

The requirements of Governmental Accounting Standards Board Statement no. 68, under the regulatory basis of accounting, are limited to disclosure of the City's share of the collective net pension liability. The City's proportionate share of the collective net pension liability at June 30, 2021 (actuarial valuation date and measurement date) was \$115,442.

NOTE 16: Clerk/Treasurer Retirement Benefits

Plan Description

Ark. Code Ann. § 24-12-121 establishes retirement benefits for clerk/treasurers in cities of the first class and death benefits to their spouses at the option of the governing body of the City. Benefits and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. A retiree is entitled to receive a monthly retirement benefit during the remainder of their natural life, a sum equal to one-half (1/2) of the monthly salary received during the last preceding year of service. Retirement benefits are to be paid from the City's General Fund. A clerk/treasurer may retire: 1.) upon reaching the age of 60 with a minimum of 10 years of service or 2.) upon serving 20 years, regardless of age. The City paid former Clerk/Treasurer Linda Powell \$8,864 for the year ended December 31, 2021.

NOTE 17: Corona Virus (COVID-19)

On March 11, 2020, the Governor of Arkansas issued Executive Order 20-03 declaring an emergency and ordered Arkansas Department of Health to take action to prevent the spread of coronavirus disease 2019 (COVID-19). The City was awarded \$374,376 in federal aid from the American Rescue Plan Act of 2021. In 2021 and 2022, the City received funds in the amount of \$187,189 and \$187,187, respectively. The extent of the impact of COVID-19 on financial statements for future reporting periods remains uncertain.

CITY OF LEPANTO, ARKANSAS
COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
REGULATORY BASIS
DECEMBER 31, 2021

Schedule 1

| | SPECIAL REVENUE FUNDS | | | | | | |
|-------------------------------------|-----------------------|------------------|------------------|------------------|-----------------|------------------|---------------|
| | Fire Equipment | Court Automation | Fire Protection | Criminal Justice | Cemetery | Jail Maintenance | Drug Control |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 28,308 | \$ 1,691 | \$ 29,838 | \$ 716 | \$ 6,586 | \$ 367 | \$ 288 |
| Investments | | | | | | | |
| Accounts receivable | | 175 | | 114 | | 50 | |
| TOTAL ASSETS | <u>\$ 28,308</u> | <u>\$ 1,866</u> | <u>\$ 29,838</u> | <u>\$ 830</u> | <u>\$ 6,586</u> | <u>\$ 417</u> | <u>\$ 288</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | | | | | | | |
| Settlements pending | | | | | | | |
| Total Liabilities | | | | | | | |
| Fund Balances: | | | | | | | |
| Restricted | \$ 28,308 | \$ 1,866 | \$ 29,838 | | | \$ 417 | \$ 288 |
| Committed | | | | \$ 830 | \$ 6,586 | | |
| Assigned | | | | | | | |
| Total Fund Balances | <u>28,308</u> | <u>1,866</u> | <u>29,838</u> | <u>830</u> | <u>6,586</u> | <u>417</u> | <u>288</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 28,308</u> | <u>\$ 1,866</u> | <u>\$ 29,838</u> | <u>\$ 830</u> | <u>\$ 6,586</u> | <u>\$ 417</u> | <u>\$ 288</u> |

CITY OF LEPANTO, ARKANSAS
COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
REGULATORY BASIS
DECEMBER 31, 2021

Schedule 1

| | SPECIAL REVENUE FUNDS | | | | | DEBT SERVICE FUND | TRUST FUND |
|-------------------------------------|---|------------------------------------|-----------------|---------------|------------------------------------|---------------------------|-------------------|
| | Local Police and Fire Retirement Cost | Park Maintenance and Operations | Park Commission | Fun Park | American Rescue Plan Act (ARPA) | 2007 Sales and Use Tax | Firemen's Pension |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 4,377 | \$ 144,449 | \$ 3,634 | \$ 424 | \$ 187,189 | \$ 191,829 | \$ 3,285 |
| Investments | | | | | | | 129,859 |
| Accounts receivable | 54 | 3,724 | | | | 14,898 | 25 |
| TOTAL ASSETS | <u>\$ 4,431</u> | <u>\$ 148,173</u> | <u>\$ 3,634</u> | <u>\$ 424</u> | <u>\$ 187,189</u> | <u>\$ 206,727</u> | <u>\$ 133,169</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 1,911 | | | | | | |
| Settlements pending | | | | | | | |
| Total Liabilities | <u>1,911</u> | | | | | | |
| Fund Balances: | | | | | | | |
| Restricted | 2,520 | \$ 148,173 | \$ 3,634 | \$ 424 | \$ 187,189 | \$ 206,727 | \$ 130,529 |
| Committed | | | | | | | 2,640 |
| Assigned | | | | | | | |
| Total Fund Balances | <u>2,520</u> | <u>148,173</u> | <u>3,634</u> | <u>424</u> | <u>187,189</u> | <u>206,727</u> | <u>133,169</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 4,431</u> | <u>\$ 148,173</u> | <u>\$ 3,634</u> | <u>\$ 424</u> | <u>\$ 187,189</u> | <u>\$ 206,727</u> | <u>\$ 133,169</u> |

CITY OF LEPANTO, ARKANSAS
 COMBINING BALANCE SHEET - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 DECEMBER 31, 2021

Schedule 1

| | CUSTODIAL FUNDS | | | | |
|-------------------------------------|------------------|-------------------------|--------------|---------------|-------------------|
| | District Court | Police Bond and Fine | Sales Tax | Payroll | Totals |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 32,012 | \$ 5,790 | \$ 23 | \$ 536 | \$ 641,342 |
| Investments | | | | | 129,859 |
| Accounts receivable | | | | | 19,040 |
| | | | | | |
| TOTAL ASSETS | <u>\$ 32,012</u> | <u>\$ 5,790</u> | <u>\$ 23</u> | <u>\$ 536</u> | <u>\$ 790,241</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | | | | | \$ 1,911 |
| Settlements pending | \$ 32,012 | \$ 5,790 | \$ 23 | \$ 536 | 38,361 |
| Total Liabilities | <u>32,012</u> | <u>5,790</u> | <u>23</u> | <u>536</u> | <u>40,272</u> |
| Fund Balances: | | | | | |
| Restricted | | | | | 739,913 |
| Committed | | | | | 7,416 |
| Assigned | | | | | 2,640 |
| Total Fund Balances | | | | | <u>749,969</u> |
| | | | | | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 32,012</u> | <u>\$ 5,790</u> | <u>\$ 23</u> | <u>\$ 536</u> | <u>\$ 790,241</u> |

CITY OF LEPANTO, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2021

Schedule 2

| | SPECIAL REVENUE FUNDS | | | | | | | |
|--|-----------------------|------------------|-----------------|------------------|----------|------------------|--------------|---------------------------------------|
| | Fire Equipment | Court Automation | Fire Protection | Criminal Justice | Cemetery | Jail Maintenance | Drug Control | Local Police and Fire Retirement Cost |
| REVENUES | | | | | | | | |
| State aid | | | \$ 23,299 | | | | | |
| Federal aid | | | | | | | | |
| Property taxes | | | | | | | | |
| Sales taxes | | | | | | | | |
| Fines, forfeitures, and costs | | \$ 3,033 | | \$ 1,370 | | \$ 600 | | \$ 651 |
| Interest | | | | | \$ 1 | | | 1 |
| Park fees, rentals, sales | | | | | | | | |
| Employee contributions | | | | | | | | 7,736 |
| Net increase/(decrease) in fair value of investments | | | | | | | | |
| Other | \$ 1 | | | | 135 | | \$ 1 | |
| TOTAL REVENUES | 1 | 3,033 | 23,299 | 1,370 | 136 | 600 | 1 | 8,388 |
| EXPENDITURES | | | | | | | | |
| Current: | | | | | | | | |
| Law enforcement | | 1,759 | | 1,631 | | 360 | 5 | 12,350 |
| Public safety | | | 30,940 | | | | | 1,434 |
| Recreation and culture | | | | | | | | |
| Total Current | | 1,759 | 30,940 | 1,631 | | 360 | 5 | 13,784 |
| Debt Service: | | | | | | | | |
| Bond principal | | | | | | | | |
| Bond interest and other charges | | | | | | | | |
| TOTAL EXPENDITURES | | 1,759 | 30,940 | 1,631 | | 360 | 5 | 13,784 |
| EXCESS OF REVENUES OVER (UNDER) | | | | | | | | |
| EXPENDITURES | 1 | 1,274 | (7,641) | (261) | 136 | 240 | (4) | (5,396) |
| FUND BALANCES - JANUARY 1 | 28,307 | 592 | 37,479 | 1,091 | 6,450 | 177 | 292 | 7,916 |
| FUND BALANCES - DECEMBER 31 | \$ 28,308 | \$ 1,866 | \$ 29,838 | \$ 830 | \$ 6,586 | \$ 417 | \$ 288 | \$ 2,520 |

CITY OF LEPANTO, ARKANSAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - OTHER FUNDS IN THE AGGREGATE -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2021

Schedule 2

| | SPECIAL REVENUE FUNDS | | | | DEBT SERVICE FUND | TRUST FUND | |
|--|---------------------------------------|--------------------|---------------|---------------------------------------|---------------------------|----------------------|----------------|
| | Park Maintenance and Operations | Park Commission | Fun Park | American Rescue Plan Act (ARPA) | 2007 Sales and Use Tax | Firemen's Pension | Totals |
| REVENUES | | | | | | | |
| State aid | | | \$ 70,131 | | | \$ 4,695 | \$ 98,125 |
| Federal aid | | | | \$ 187,189 | | | 187,189 |
| Property taxes | | | | | | 4,113 | 4,113 |
| Sales taxes | \$ 47,369 | | | | \$ 189,477 | | 236,846 |
| Fines, forfeitures, and costs | | | | | | | 5,654 |
| Interest | 26 | | 3 | | 29 | 3,696 | 3,756 |
| Park fees, rentals, sales | | \$ 8,779 | | | | | 8,779 |
| Employee contributions | | | | | | | 7,736 |
| Net increase/(decrease) in fair value of investments | | | | | | (3,746) | (3,746) |
| Other | 541 | | | | | | 678 |
| TOTAL REVENUES | 47,936 | 8,779 | 70,134 | 187,189 | 189,506 | 8,758 | 549,130 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Law enforcement | | | | | | | 16,105 |
| Public safety | | | | | | 21,297 | 53,671 |
| Recreation and culture | 21,278 | 5,995 | 69,710 | | | | 96,983 |
| Total Current | 21,278 | 5,995 | 69,710 | | | 21,297 | 166,759 |
| Debt Service: | | | | | | | |
| Bond principal | | | | | 160,000 | | 160,000 |
| Bond interest and other charges | | | | | 17,427 | | 17,427 |
| TOTAL EXPENDITURES | 21,278 | 5,995 | 69,710 | | 177,427 | 21,297 | 344,186 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 26,658 | 2,784 | 424 | 187,189 | 12,079 | (12,539) | 204,944 |
| FUND BALANCES - JANUARY 1 | 121,515 | 850 | | | 194,648 | 145,708 | 545,025 |
| FUND BALANCES - DECEMBER 31 | \$ 148,173 | \$ 3,634 | \$ 424 | \$ 187,189 | \$ 206,727 | \$ 133,169 | \$ 749,969 |

CITY OF LEPANTO, ARKANSAS
NOTES TO SCHEDULES 1 AND 2
DECEMBER 31, 2021

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 | Lepanto Ordinance nos. 347 (1996) and 372 (2001) provided for the levy of an additional voter approved 1/2% sales and use tax through September 30, 2008 to replace fire department equipment. |
| Court Automation | Ark. Code Ann. § 16-13-704 established fund to receive district court installment fees of 1/2 of \$5 per month on each person to be used for court-related technology. |
| Fire Protection | Ark. Code Ann. §§ 14-284-403, 404 requires insurance premium tax funds to be distributed by the county to municipal fire departments for training, purchase and improvement of fire fighting equipment, initial capital construction or improvements of fire departments, insurance for buildings, and utilities costs. |
| Criminal Justice | Lepanto Ordinance no. 463 (2015) established fund to receive court cost to be used for court related expenses. |
| Cemetery | Lepanto Ordinance no. 130 (1935) established a separate fund for funds derived from the sale of cemetery plots and public donations for the use of benefit of the cemetery. |
| Jail Maintenance | Ark. Code Ann. § 16-17-129 established fund to receive fees of \$5 per conviction, for jail maintenance expenditures. |
| Drug Control | Ark. Code Ann. § 5-64-505 established fund to receive asset forfeitures resulting from drug offense cases due to arresting agency. The revenues shall only be used for law enforcement purposes. |
| Local Police and Fire Retirement Cost | Ark. Code Ann. § 24-10-409 requires cities receiving revenues from the state derived from taxes levied on foreign and domestic insurers or any other state funds designated for support of fire and police retirement programs to be applied to the employer contribution to support this system. |
| Park Maintenance and Operations | Lepanto Ordinance no. 402 (2007) authorized extension of voter approved 1/2 of the 1/2% sales and use tax for the purpose of park improvements. |
| Park Commission | Ark. Code Ann. § 14-269-301 and Lepanto Ordinance no. 434 (2012) established fund for the purpose of operating and managing the parks and recreation program. |
| Fun Park | Established to account for a state grant to be used for parks and recreation. |

CITY OF LEPANTO, ARKANSAS
NOTES TO SCHEDULES 1 AND 2
DECEMBER 31, 2021

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

| <u>Fund Name</u> | <u>Fund Description</u> |
|---------------------------------|--|
| American Rescue Plan Act (ARPA) | Established to receive and disburse Coronavirus State and Local Fiscal Recovery Funds (SLRF), a part of the American Rescue Plan Act (ARPA) of 2021, to support response to and recovery from the COVID-19 public health emergency. |
| 2007 Sales and Use Tax | Lepanto Ordinance no. 408 (2007) authorized the issuance of voter approved sales and use tax bonds for the purpose of financing the cost of capital improvements pledging 3/4% of the receipts of collections of a new sales and use tax and 1/2% of an existing sales and use tax to pay the principal and interest on the bonds. |
| Firemen's Pension | Ark. Code Ann. § 24-11-801 established fund to receive property taxes, state aid, and other revenues allowed by law for support of firefighter retirement programs. |
| District Court | Ark. Code Ann. § 16-10-204 established account to receive fines, forfeitures, and costs collected by the district court. |
| Police Bond and Fine | Ark. Code Ann. § 16-10-204 established account to receive fines, forfeitures, and costs collected by the police department. |
| Sales Tax | Established to receive state aid and sales taxes to be distributed to the appropriate entities. |
| Payroll | Established for payroll related expenditures. |

CITY OF LEPANTO, ARKANSAS
OTHER INFORMATION
SCHEDULE OF CAPITAL ASSETS
DECEMBER 31, 2021
(Unaudited)

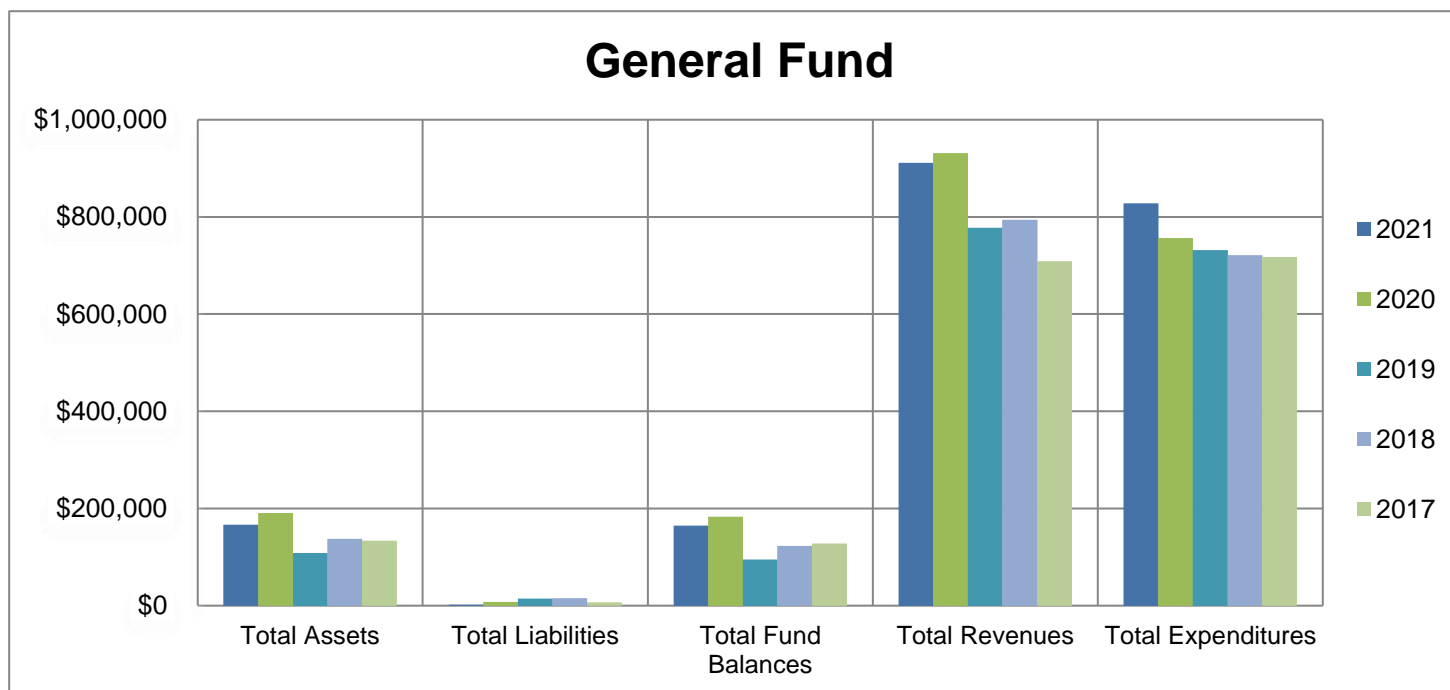
Schedule 3

| | December 31, 2021 |
|-----------------------------------|----------------------------|
| | <hr/> |
| Land | \$ 264,154 |
| Buildings | 610,180 |
| Improvements other than buildings | 1,527,587 |
| Equipment | <hr/> 1,001,091 |
| | <hr/> |
| Total | <u><u>\$ 3,403,012</u></u> |

CITY OF LEPANTO, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - GENERAL FUND - REGULATORY BASIS
DECEMBER 31, 2021
(Unaudited)

Schedule 4-1

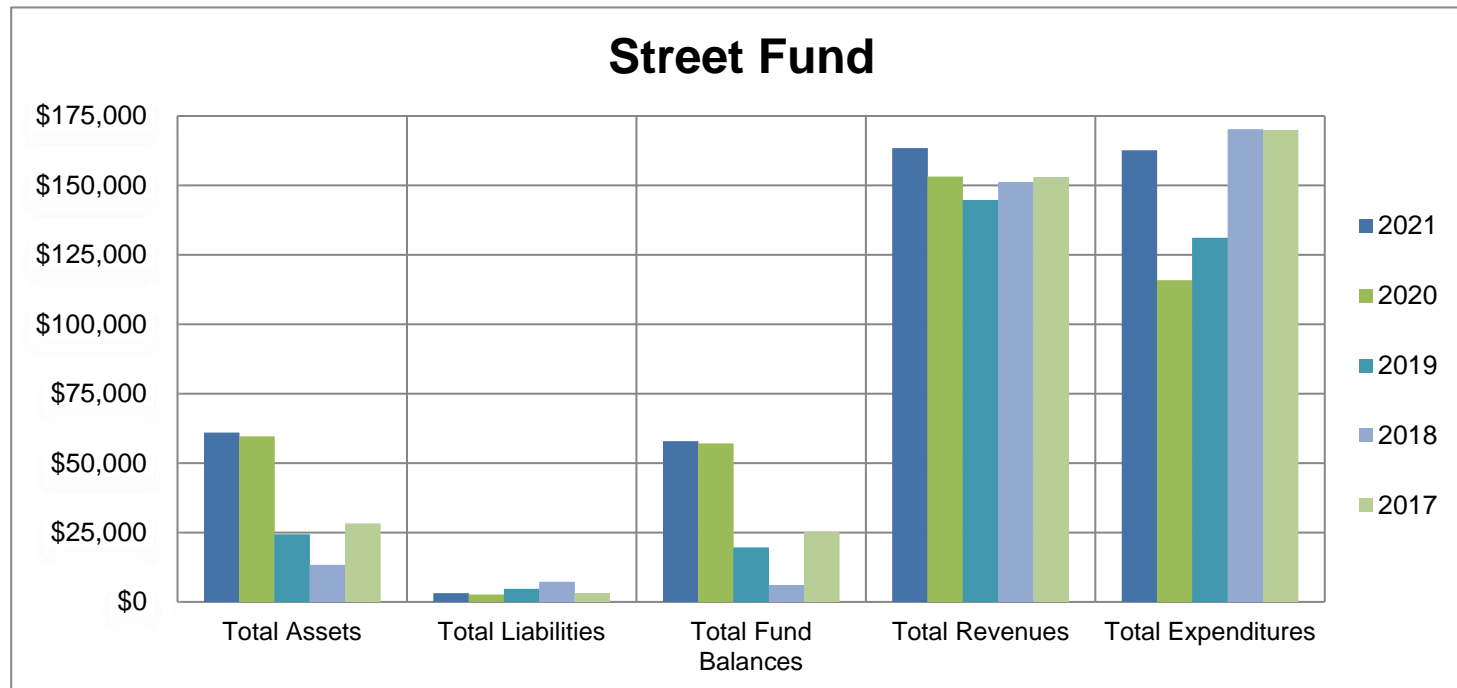
| General | 2021 | 2020 | 2019 | 2018 | 2017 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total Assets | \$ 166,340 | \$ 190,540 | \$ 108,642 | \$ 137,392 | \$ 133,634 |
| Total Liabilities | 1,984 | 7,706 | 13,903 | 14,592 | 6,484 |
| Total Fund Balances | 164,356 | 182,834 | 94,739 | 122,800 | 127,150 |
| Total Revenues | 911,133 | 930,932 | 777,579 | 793,951 | 708,382 |
| Total Expenditures | 827,282 | 756,345 | 731,565 | 720,998 | 717,597 |
| Total Other Financing Sources/Uses | (102,329) | (86,492) | (74,075) | (77,303) | |



CITY OF LEPANTO, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - STREET FUND - REGULATORY BASIS
DECEMBER 31, 2021
(Unaudited)

Schedule 4-2

| <u>Street</u> | 2021 | 2020 | 2019 | 2018 | 2017 |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Total Assets | \$ 60,865 | \$ 59,546 | \$ 24,288 | \$ 13,264 | \$ 28,167 |
| Total Liabilities | 3,056 | 2,588 | 4,695 | 7,238 | 3,127 |
| Total Fund Balances | 57,809 | 56,958 | 19,593 | 6,026 | 25,040 |
| Total Revenues | 163,425 | 153,096 | 144,644 | 151,164 | 152,971 |
| Total Expenditures | 162,574 | 115,731 | 131,077 | 170,178 | 169,991 |



CITY OF LEPANTO, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - OTHER FUNDS IN THE AGGREGATE - REGULATORY BASIS
DECEMBER 31, 2021
(Unaudited)

Schedule 4-3

| <u>Other Funds in the Aggregate</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total Assets | \$ 790,241 | \$ 577,379 | \$ 540,987 | \$ 518,963 | \$ 481,239 |
| Total Liabilities | 40,272 | 32,354 | 62,325 | 60,782 | 42,315 |
| Total Fund Balances | 749,969 | 545,025 | 478,662 | 457,056 | 438,924 |
| Total Revenues | 549,130 | 302,181 | 260,608 | 244,827 | 253,453 |
| Total Expenditures | 344,186 | 235,818 | 239,002 | 229,335 | 301,567 |
| Total Other Financing Sources/Uses | | | | 2,640 | |

