

CITY OF MARION, ARKANSAS
REGULATORY BASIS FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

December 31, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Arkansas Officials and Council Members of
City of Marion, Arkansas

Opinions

We have audited the accompanying financial statements of the City of Marion, Arkansas which comprise the balance sheet – regulatory basis as of December 31, 2021, and the related statements of receipts, disbursements, and changes in fund balances; receipts, disbursements, and changes in fund balances – budget and actual - general fund – regulatory basis; receipts, disbursements, and changes in fund balances - street fund – regulatory basis for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, street fund, and other funds in the aggregate of the City of Marion, Arkansas, as of December 31, 2021, the regulatory basis receipts, disbursements, and changes in fund balances for the general fund, street fund and other funds in the aggregate, and the budgetary results for the general fund and street fund for the year then ended, in accordance with the financial reporting provisions of the Arkansas Code Section 10-4-412 as 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 Opinions on U.S. Generally Accepted Accounting Principles section of our report, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Marion, Arkansas, as of December 31, 2021, or changes in net position, or 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Marion, Arkansas, 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 Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the City of Marion, Arkansas on the basis of the financial reporting provisions of Arkansas Code Section 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 of 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.

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 Arkansas Code Section 10-4-412, as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 generally accepted auditing standards 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Marion, Arkansas' 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 of Marion, Arkansas' 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 accompanying regulatory basis financial statements that collectively comprise the City of Marion, Arkansas' basic financial statements. The accompanying schedules of current disbursements, combining balance sheet – other funds in the aggregate – regulatory basis, combining statement of receipts, disbursements, and changes in fund balances – other funds in the aggregate – regulatory basis. are presented for the purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The schedules of current disbursements, combining balance sheet – other funds in the aggregate – regulatory basis, combining statement of receipts, disbursements, and changes in fund balances – other funds in the aggregate – regulatory basis have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of capital assets – general fund but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic 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 basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic 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 April 14, 2023 on our consideration of the City of Marion, Arkansas' 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 that testing, and not to provide an opinion on the effectiveness of the City of Marion, Arkansas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Marion, Arkansas' internal control over financial reporting and compliance.



Memphis, Tennessee
April 14, 2023

CITY OF MARION, ARKANSAS
BALANCE SHEET – REGULATORY BASIS

December 31, 2021

<u>Assets</u>	General Fund	Street Fund	Other Funds in the Aggregate	Total
Cash and cash equivalents	\$ 7,285,496	\$ 68,003	\$ 21,823,181	\$ 29,176,680
Investments	-	-	124,163	124,163
Prepaid debt payment	-	-	25,446	25,446
Other miscellaneous receivables	6,995	-	-	6,995
Interfund receivables	102,675	1,948	109,622	214,245
	<u>102,675</u>	<u>1,948</u>	<u>109,622</u>	<u>214,245</u>
Total assets	<u>\$ 7,395,166</u>	<u>\$ 69,951</u>	<u>\$ 22,082,412</u>	<u>\$ 29,547,529</u>
 <u>Liabilities and Fund Balance</u>				
Liabilities				
Customer meter deposits	\$ -	\$ -	\$ 530,363	\$ 530,363
Settlements pending - District Court	-	-	302,262	302,262
Payable to State of Arkansas	3,910	-	55,573	59,483
Other miscellaneous payables	3,156	-	-	3,156
Due to other governments	-	-	36,277	36,277
Interfund payables	44,622	-	169,623	214,245
Accounts payable - payroll fund	-	-	50,763	50,763
Total liabilities	<u>51,688</u>	<u>-</u>	<u>1,144,861</u>	<u>1,196,549</u>
Fund Balance				
Restricted	86,458	69,951	16,592,098	16,748,507
Assigned	5,475,204	-	175,931	5,651,135
Unassigned	1,781,816	-	4,169,522	5,951,338
Total fund balance	<u>7,343,478</u>	<u>69,951</u>	<u>20,937,551</u>	<u>28,350,980</u>
Total liabilities and fund balance	<u>\$ 7,395,166</u>	<u>\$ 69,951</u>	<u>\$ 22,082,412</u>	<u>\$ 29,547,529</u>

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

CITY OF MARION, ARKANSAS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES – REGULATORY BASIS**

For the Year Ended December 31, 2021

	General Fund	Street Fund	Other Funds in the Aggregate	Total
Receipts				
State turnback	\$ 191,841	\$ 700,074	\$ -	\$ 891,915
Property taxes	1,124,010	123,441	-	1,247,451
Fines and forfeitures	343,074	-	-	343,074
District Court reimbursement	219,786	-	-	219,786
Franchise taxes	562,382	-	-	562,382
Sales taxes	3,299,399	345,761	2,390,065	6,035,225
Local permits	121,487	-	-	121,487
Interest	6,653	87	26,216	32,956
Federal aid	6,850	-	-	6,850
Grants	5,963	-	1,275,206	1,281,169
Service fees	775,441	-	2,108,459	2,883,900
Other	162,873	23,890	26,673	213,436
Total receipts	6,819,759	1,193,253	5,826,619	13,839,631
Disbursements				
Current:				
General government	1,263,287	-	366,347	1,629,634
Economic development	120,000	-	-	120,000
Law enforcement	2,254,793	-	-	2,254,793
Highways and streets	-	1,630,302	-	1,630,302
Public safety	605,138	-	-	605,138
Health	-	-	-	-
Pension	214,290	-	43,183	257,473
Recreation and culture	382,974	-	-	382,974
City services	421,341	-	1,483,485	1,904,826
Capital projects	684,155	-	618,601	1,302,756
Total current disbursements	5,945,978	1,630,302	2,511,616	10,087,896

The accompanying notes are an integral part of the financial statements

CITY OF MARION, ARKANSAS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES – REGULATORY BASIS (CONTINUED)**

For the Year Ended December 31, 2021

	General Fund	Street Fund	Other Funds in the Aggregate	Total
Debt Services:				
Bond principal	\$ -	\$ -	\$ 1,507,092	\$ 1,507,092
Bond interest and other charges	-	-	702,844	702,844
Note principal	3,645	-	-	3,645
Note interest	827	-	-	827
Total debt services	<u>4,472</u>	<u>-</u>	<u>2,209,936</u>	<u>2,214,408</u>
 Total disbursements	<u>5,950,450</u>	<u>1,630,302</u>	<u>4,721,552</u>	<u>12,302,304</u>
 Excess (deficiency) of receipts over disbursements	869,309	(437,049)	1,105,067	1,537,327
Other Financing Sources (Uses):				
Transfers in	-	513,330	-	513,330
Transfers out	<u>(513,330)</u>	<u>-</u>	<u>-</u>	<u>(513,330)</u>
Total other financing sources (uses)	<u>(513,330)</u>	<u>513,330</u>	<u>-</u>	<u>-</u>
 Excess (deficiency) of receipts and other sources over disbursements and other uses	355,979	76,281	1,105,067	1,537,327
 Fund balance, December 31, 2020	<u>6,987,499</u>	<u>(6,330)</u>	<u>19,832,484</u>	<u>26,813,653</u>
Fund balance, December 31, 2021	<u><u>\$ 7,343,478</u></u>	<u><u>\$ 69,951</u></u>	<u><u>\$ 20,937,551</u></u>	<u><u>\$ 28,350,980</u></u>

The accompanying notes are an integral part of the financial statements

CITY OF MARION, ARKANSAS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL – GENERAL FUND – REGULATORY BASIS**

For the Year Ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
Receipts			
State turnback	\$ 174,905	\$ 191,841	\$ 16,936
Property taxes	1,125,169	1,124,010	(1,159)
Fines and forfeitures	391,538	343,074	(48,464)
District Court reimbursement	219,720	219,786	66
Franchise taxes	550,808	562,382	11,574
Sales taxes	3,306,321	3,299,399	(6,922)
Local permits	123,549	121,487	(2,062)
Interest	86,119	6,653	(79,466)
Federal aid	12,443	6,850	(5,593)
Grants	5,900	5,963	63
Service Fees	774,371	775,441	1,070
Other	<u>266,642</u>	<u>162,873</u>	<u>(103,769)</u>
Total receipts	7,037,485	6,819,759	(217,726)
Disbursements			
Current:			
General government	1,384,067	1,263,287	120,780
Economic development	123,401	120,000	3,401
Law enforcement	2,478,147	2,254,793	223,354
Public safety	478,753	605,138	(126,385)
Pension	265,668	214,290	51,378
Recreation and culture	413,131	382,974	30,157
City services	636,335	421,341	214,994
Capital projects	<u>448,820</u>	<u>684,155</u>	<u>(235,335)</u>
Total current	6,228,322	5,945,978	282,344

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

CITY OF MARION, ARKANSAS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES – BUDGET
AND ACTUAL – GENERAL FUND - REGULATORY BASIS (CONTINUED)**

For the Year Ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) Variance
Debt Services:			
Note principal	\$ -	\$ 3,645	\$ (3,645)
Note interest	-	827	(827)
Total debt services	<u>-</u>	<u>4,472</u>	<u>(4,472)</u>
Total disbursements	<u>6,228,322</u>	<u>5,950,450</u>	<u>277,872</u>
Excess (deficiency) of receipts over disbursements	809,163	869,309	60,146
Other Financing Sources (Uses):			
Procceds from Debt issuance	-	-	-
Transfers in	-	-	-
Transfers out	<u>(591,638)</u>	<u>(513,330)</u>	<u>78,308</u>
Total other financing sources	<u>(591,638)</u>	<u>(513,330)</u>	<u>78,308</u>
Excess (deficiency) of receipts and other sources over disbursements and other uses	217,525	355,979	138,454
Fund balance, December 31, 2020	<u>6,987,499</u>	<u>6,987,499</u>	<u>-</u>
Fund balance, December 31, 2021	<u><u>\$ 7,205,024</u></u>	<u><u>\$ 7,343,478</u></u>	<u><u>\$ 138,454</u></u>

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

CITY OF MARION, ARKANSAS

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES – BUDGET
AND ACTUAL – STREET FUND - REGULATORY BASIS**

For the Year Ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Receipts			
State turnback	\$ 668,983	\$ 700,074	\$ 31,091
Property taxes	139,721	123,441	(16,280)
Sales taxes	306,663	345,761	39,098
Interest	-	87	
Other receipts	-	23,890	23,890
Total receipts	<u>1,115,367</u>	<u>1,193,253</u>	<u>77,799</u>
Disbursements			
Current:			
Highways and streets	1,321,405	1,264,676	56,729
Capital projects	383,560	345,716	37,844
Health	2,040	19,910	(17,870)
Total disbursements	<u>1,707,005</u>	<u>1,630,302</u>	<u>76,703</u>
Excess (deficiency) of receipts over disbursements	(591,638)	(437,049)	154,589
Other Financing Sources (Uses):			
Transfers in	<u>591,638</u>	<u>513,330</u>	<u>(78,308)</u>
Excess (deficiency) of receipts and other sources over disbursements and other uses	-	76,281	76,281
Fund balance, December 31, 2020	<u>(6,330)</u>	<u>(6,330)</u>	<u>-</u>
Fund balance, December 31, 2021	<u><u>\$ (6,330)</u></u>	<u><u>\$ 69,951</u></u>	<u><u>\$ 76,281</u></u>

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

CITY OF MARION, ARKANSAS
NOTES TO FINANCIAL STATEMENTS

December 31, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Marion (the “City”) was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City.

B. Basis of Accounting - Regulatory

The financial statements are prepared on the regulatory basis of accounting as prescribed or permitted by Arkansas Code Section 10-4-412. This regulatory basis differs from accounting principles generally accepted in the United States of America. Assets, liabilities, fund balance, receipts, and disbursements are recognized when they result from cash transactions with a provision for investments, customer meter deposits, funds held for others, and settlements pending.

As a result of the use of this regulatory basis of accounting, certain assets (such as capital assets) and their related receipts and certain liabilities (such as accounts payable and long-term debt) and their related disbursements are not recorded in these financial statements.

C. Basis of Presentation – Regulatory

The financial statements are presented in accordance with the regulatory basis of presentation as prescribed or permitted by Arkansas Code Section 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 (receipts), expenditures (disbursements), and changes in the fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and street fund; notes to the financial statements; and a supplementary schedule of capital assets.

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 balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds are recognized in the accompanying financial statements:

General Fund

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

Street Fund

The Street Fund is used to account for the proceeds of specific receipt sources that are legally restricted 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 included in this column are as follows:

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Proprietary Funds

Proprietary Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes. The following proprietary funds are reported with other funds in the aggregate: Sewer and Water.

Capital Projects Fund

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Trust and Agency Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. The following trust and agency funds are reported with other funds in the aggregate: Payroll, District Court, and Firemen's Pension.

Advertising and Promotion Fund

The Advertising and Promotion Fund uses funds from sales tax to promote the City and its environment.

Grant Fund

The Grant Fund is used to account for transactions which arise from the receipt and expenditure of funding received from the Federal government under the American Rescue Plan Act.

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. For the purpose of financial reporting, all demand accounts, savings accounts, cash on hand, certificates of deposits, and money market accounts are considered to be cash and cash equivalents.

Interfund receivables/payables and transfers

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as other outstanding balances between funds are referred to as either “due to” or “due from other funds”. Interfund transfers represent subsidies and contributions provided to funds with no corresponding debt or promise to pay.

Investments

Investments are reported at fair market value.

Settlements Pending

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

Fund Balance Classifications

- 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, contributions, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
- Committed Fund Balance – amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (passage of an ordinance).
- Assigned Fund Balance – amounts that are constrained by the City Council’s intent to be used for specific purposes but are neither restricted nor committed.
- Unassigned Fund Balance – amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund and proprietary funds. 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.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

E. Property Taxes

A lien attaches to real property in January and on personal property in June of each year. Property taxes are collectible beginning the first business day of March of the subsequent year but are not considered delinquent until after October 10. Property taxes reflected as receipts 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

The City prepares an annual budget on the regulatory basis for all funds. In establishing an annual budget for the City, state law stipulates the following:

- 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 disbursements and the means of financing them.
- The proposed budget is discussed at the City Council meeting prior to adoption.
- Prior to February 1, the budget is legally enacted by action of the City Council.
- Appropriations lapse at the end of each year.
- Under certain conditions, the budget may be amended subsequent to year-end.

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

NOTE 2 – CERTIFICATES OF DEPOSIT AND INVESTMENTS

State law requires collateralization of all deposits with the FDIC and other collateral in specific amounts to cover risk of loss. At December 31, 2021, the deposits of the City were sufficiently covered by the FDIC and additional pledged securities held by the City's agent in the City's name. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

The City's investment policy permits investments in the following financial instruments:

- Certificates of deposits issued by state and national banks domiciled in Arkansas that are insured by the FDIC.
- Obligations of the United States of America or its agencies and instrumentalities.
- Corporate bonds held by the City's agent.
- For the Firemen's Pension Plan, investments must have a readily ascertainable market value and be readily marketable.

As of December 31, 2021, the City's money market and investment accounts consisted of the following:

	Cost	Fair Market Value	Investment Maturity (in Years)
			Less than 1
Money Markets			
General Fund	\$ 5,718,613	\$ 5,718,613	\$ 5,718,613
Other funds	3,922,536	3,922,536	3,922,536
Total money markets	<u>\$ 9,641,149</u>	<u>\$ 9,641,149</u>	<u>\$ 9,641,149</u>
Investments			
Mutual funds	<u>\$ 108,067</u>	<u>\$ 124,163</u>	<u>\$ 124,163</u>

Mutual funds are held by the Fireman Relief and Pension Fund.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statute requires the City to maintain cash balances on deposits with financial institutions located within the State of Arkansas. There is a risk that in the event of a bank failure, these deposits may not be returned. To mitigate this risk, it is generally the City's policy to obtain collateral for all deposit balances in excess of FDIC insurance and that such collateral be held in the City's name by an agent of the City. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations), repurchase agreements, corporate debt and equity obligations, and state and local government securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to an increased risk of adverse interest rate changes. The City does not have a policy specifically formulated to address interest rate risk. Investment policies for the Fireman's Relief and Pension Plan stipulate that corporate debt investments must meet or exceed a BBB rating at the time of purchase except in certain circumstances.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer.

Fireman's Relief Pension Plan Investments

The Fireman's Relief Pension Plan Investments are reported at fair value. The hierarchy based on the valuation assumptions used to measure the fair value of the assets are as follows:

Level I – quoted prices in active markets for identical assets

Level II – significant other observable assumptions (e.g., quote prices for similar instruments in active or inactive markets, etc.)

Level III – significant unobservable assumptions (e.g., prices or valuations using unobservable techniques supported by little or no market activity).

At December 31, 2021, the Fireman's Relief Pension Plan contained Level 1 investments (other than those issued or guaranteed by the U.S. Government) in organizations that represent 5% or more of plan investments. Those investments are as follows:

Investment Type	Fair Market Value
Mutual Funds	
Baird Core Plus Bond	\$ 19,766
Blackrock Equity Dividend	15,769
Clearbridge Large Cap Growth	31,193
Loomis Sayles Investment	8,858
Neuberger Berman Equity Income	19,294
PGIM Total Return Bond	15,608
Western Asset Core Plus Bond I	13,676
Total	<u>\$ 124,164</u>

NOTE 3 – LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS

Governmental Fund Types

State law 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 eligible investment securities having a maturity 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 – Firemen's Pension and Investments

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

NOTE 4 – 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
Restricted for:			
Advertising and promotion	\$ -	\$ -	\$ 1,232,060
Highway and streets	-	69,951	-
Debt service	-	-	1,343,403
Capital improvements/equipment	-	-	13,153,165
Library	-	-	-
ARPA	-	-	863,470
ACT 833	86,458	-	-
Total restricted	86,458	69,951	16,592,098
Assigned for:			
Capital improvements/equipment	5,292,237	-	-
Payroll	-	-	25,659
Pension benefits	12,014	-	150,272
Fire equipment	16,916	-	-
Parks improvements	82,305	-	-
Sultana exhibit	32,663	-	-
Animal shelter	39,069	-	-
Total assigned	5,475,204	-	175,931
Unassigned	1,781,816	-	4,169,522
Total fund balances	\$ 7,343,478	\$ 69,951	\$ 20,937,551

NOTE 5 – REVENUE BONDS

The following revenue bonds were issued for securing and developing industry within the City of Marion. The bonds are being retired by a lease-rental plan with the following corporations:

Corporation	Ordinance Authorizing Issuance	Date of Issuance	Original Amount of Bonds Issued	Bonds Outstanding as of December 31, 2021
Southern Rail Services, Inc.	396	5/12/2003	\$ 10,000,000	\$ 9,900,000
Hino Motors Manufacturing USA, Inc.	430	9/29/2004	\$ 160,000,000	\$ 57,600,000
Hino Motors Manufacturing USA, Inc.	475	2/21/2007	\$ 70,000,000	\$ 28,250,000
Hino Motors Manufacturing USA, Inc.	551	3/28/2014	\$ 75,000,000	\$ 46,963,500

The bonds are special obligations of the City and do not constitute an indebtedness of the City within any Constitutional or statutory limitation but are payable solely from lease-rentals of certain properties and are secured by a statutory mortgage lien on the same properties. Accordingly, these bonds are not reflected in the accompanying financial statements. The Hino Motors Manufacturing USA, Inc. and Southern Company Rail Services, Inc. revenue bonds were confirmed with the issuing banks.

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31, 2021:

Sales and Use Tax Capital Improvement and Refunding Bonds, Series 2017, 2.0% to 5.0% interest, payable in annual installments of varying amounts through September 1, 2047. Payments are made from the Debt Service Fund.	\$ 12,995,000
2014 Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond, 4.25% interest, payable in semi-annual installments of \$152,673 maturing December 2044. Payments are made from the Sewer Fund.	4,453,557
Note payable to Arkansas Natural Resources Commission dated February 19, 2012, payable in 20 annual installments of \$10,331 beginning December 2014 including interest at 5.00%, due December 2033. Payments are made from the Sewer Fund. Proceeds used to finance a sewer project.	70,038
Note payable to First National Bank of Eastern Arkansas, dated July 15, 2020, payable in 24 monthly payments of \$5,209, including interest at 2.0% with a final payment of \$175,636 due August 2022. Payments are made from the General Fund, collateralized by two garbage trucks.	220,181
Lease-Purchase Agreement with U.S. Bankcorp Government Leasing and Finance, dated January 3, 2020, payable in 60 monthly payments of \$3,498 including interest at 2.65%, maturing January 2025. Payments are made from the General Fund, collateralized by a garbage truck.	124,158
Note payable to First National Bank of Eastern Arkansas, dated December 1, 2020, payable in 22 monthly payments of \$4,051, including interest at 2.0% and a balloon payment of \$153,245 due November 2022. Payments are made from the General Fund, collateralized by an automated garbage truck.	190,855
Note payable to First National Bank of Eastern Arkansas, dated November 19, 2020, payable in 60 monthly payments of \$6,620, including interest at 2.25% and maturing November 2025. Payments are made from the General Fund, collateralized by the fire rescue truck.	297,566
	\$ 18,351,355

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

Annual debt service requirements to maturity based on current interest rates for long-term debt are as follows for the years ending December 31:

	Bonds		Notes Payable		Leases		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 492,303	\$ 710,593	\$ 490,283	\$ 16,362	\$ 39,162	\$ 2,817	\$ 1,021,748	\$ 729,772
2023	512,341	690,555	81,204	8,561	40,213	1,766	633,758	700,882
2024	527,596	677,500	83,215	6,450	41,292	688	652,103	684,638
2025	548,077	656,019	78,694	4,485	3,491	8	630,262	660,512
2026	568,793	633,703	6,992	3,339	-	-	575,785	637,042
2027-2031	2,708,672	2,413,808	38,252	11,087	-	-	2,746,924	2,424,895
2032-2036	3,943,233	2,083,609	-	-	-	-	3,943,233	2,083,609
2037-2041	4,705,985	1,318,135	-	-	-	-	4,705,985	1,318,135
2042-2045	3,441,557	3,003,071	-	-	-	-	3,441,557	3,003,071
	<u>\$ 17,448,557</u>	<u>\$ 12,186,993</u>	<u>\$ 778,640</u>	<u>\$ 50,284</u>	<u>\$ 124,158</u>	<u>\$ 5,279</u>	<u>\$ 18,351,355</u>	<u>\$ 12,242,556</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The City reimbursed the Mayor and the City Attorney \$7,200 and \$7,200, respectively, each for office expenses in 2021. The City paid contractual chemical supplies during 2021 to a company who employs a City Councilman totaling \$7,330.

NOTE 8 – ACT 15 – ARKANSAS STATUTE 19-4416.1

During the 1985 legislative session, the Legislature passed Act 15 (Codified as Arkansas Statutes 19-4416.1). This act requires an independent accountant to include, at a minimum, a review and comment on compliance with each of the Arkansas Statutes outlined in the above Act.

- (1) Arkansas Municipal Accounting Law of 1973, Code 14-59-101 et seq. We have reviewed the City's compliance with the municipal accounting law. It is our opinion that the City has complied, in all material respects, with the other requirements of the law.
- (2) Arkansas District Courts and City Courts Accounting Law, Code 16-10-201 et seq. We have reviewed the City's compliance with the laws for the District Court. It is our opinion that the City has complied, in all material respects, with the law.
- (3) Improvement Contracts, Code 22-9-202 – 22-9-204. We have reviewed the City's compliance with the laws for improvement contracts. It is our opinion that the City has complied, in all material respects, with the law.
- (4) Budgets, Purchases, and Payments of Claims, etc., Code 14-58-201 et seq. and 14-58-301 et seq. We have reviewed the City's compliance with the law for budgets, purchases, and payments for claims, etc. It is our opinion that the City has complied, in all material respects, with the law.
- (5) Investment of Public Funds, Code 19-1-501 et seq. We have reviewed the City's compliance with the law for investments of public funds. It is our opinion that the City has complied, in all material respects, with the law.

- (6) Deposit of Public Funds, Code 19-8-101 – 19-8-107. We have reviewed the City's compliance with the law for deposit of municipal funds. It is our opinion that the City has complied, in all material respects, with the law.

NOTE 9 – CONTINGENCIES

Grants

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 10 – PENSION PLANS

Firemen's Relief Pension Fund

The Firemen's Relief and Pension 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.

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. 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.

Simple IRA Plan

The City started this plan during 2001 for all employees not covered by the Local Police and Fire Pension System. The City matches amounts withheld from the employee's salary, up to a maximum of 3% of the employee's compensation for the calendar year.

Group Combination Deferred Annuity Contract (Nonparticipating)

The City started this plan during 2012 for all employees not covered by the Local Police and Fire Pension System. The City matches amounts withheld from the employee's salary, up to a maximum of 3% of the employee's compensation for the calendar year.

Local Police and Fire Retirement System (LOPFI)

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 public financial report that includes financial statements and required supplementary information for the LOPFI. That report may be obtained by writing to the Arkansas Local Police and Fire Retirement System, P.O. Drawer 34164, Little Rock, AR 72203 or by calling 1-501-682-1745.

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

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

The City is required to contribute at 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 \$184,431 for the year ended December 31, 2021.

Arkansas District Judge Retirement System

The Arkansas General Assembly established the Arkansas District Judge Retirement System (the "System") beginning January 1, 2005. The executive director and the administrative staff of the Arkansas Public Employees Retirement System (APERS) are the executive director and administrative staff of the System. All district judges and former district or municipal court judges not covered by APERS on December 31, 2004, are required to be covered under the System. Those covered by APERS on December 31, 2004, will continue to be covered by APERS on January 1, 2005.

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan that covers all district judges elected or appointed to office unless covered by APERS and district court clerks. The system 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 District Judge Retirement System issues a public financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Arkansas Public Employees Retirement System, One National Plaza, 124 W. Capital, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

The System is a contributory plan. Members are required by Arkansas Code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the System based on the annual valuation.

NOTE 11 – RISK MANAGEMENT

The City is exposed to various risks of loss related to 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 City participates in the Arkansas Municipal League Program (public entity risk pools) for coverage in the following areas:

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 City and pay extraordinary judgments (for actual damages – not punitive damages) imposed on the City and its officials and employees. The program shall never be liable to reimburse the City, municipal officials and employees because of judgments in any one lawsuit for more than 25 percent of the program's available funds at time the lawsuit is 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. The City also agrees to pay the first \$3,000 of the aggregate cost for all expenses on each lawsuit. This cost is not refundable.

Self-Insured Fidelity Bond Program

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

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events were evaluated through April 14, 2023, which is the date the financial statements were available to be issued.

Issuance of Debt

The City purchased three garbage trucks and financed the purchase through the issuance of notes payable to banks of approximately \$500,000. Payments, including interest ranging from 4.5 percent to 5.15 percent, will be made from the General fund. The notes are collateralized by the garbage trucks.

Firemen's Relief Pension Fund

In August 2022, the City of Marion entered into an Administrative Services Agreement with the Arkansas Local Police and Fire Retirement System (LOPFI) for administration of the City's Firemen's Relief Pension Fund. LOPFI will take over management of the investment funds, pension payments and related reporting. Based on actuarial valuations, the assets transferred to LOPFI will not be sufficient to fund the expected retirement benefits. The estimated liability will be paid to LOPFI in 180 monthly installments of \$1,165. The City will be responsible for funding any changes in the actuarially calculated liability in the future. LOPFI began administration in January 2023.

Potential Fraud

In December 2022, the City became aware of a potential misappropriation of funds involving the District Court. The magnitude of missing funds has not been determined at this point. The City has Fidelity Bond coverage through the Self-Insured Fidelity Bond Program administered by the Arkansas Governmental Bonding Board. It is expected that the impact of the misappropriation after recovery from the Fidelity Bond will not be material to the financial position of the City.

SUPPLEMENTARY INFORMATION

CITY OF MARION, ARKANSAS

SCHEDULE OF CURRENT DISBURSEMENTS – GENERAL FUND – REGULATORY BASIS

For the Year Ended December 31, 2021

General Government	
Personnel services	\$ 440,029
Other services and charges	823,258
	<hr/>
	1,263,287
Economic Development	
Other services and charges	120,000
Law Enforcement	
Personnel services	1,541,950
Supplies	22,343
Other services and charges	690,500
	<hr/>
	2,254,793
Public Safety	
Personnel services	304,389
Supplies	118,967
Other services and charges	181,782
	<hr/>
	605,138
Pension	214,290
Recreation and Culture	
Personnel services	180,631
Supplies	19,549
Other services and charges	182,794
	<hr/>
	382,974
City Services	
Sanitation	421,341
Capital Projects	684,155
	<hr/>
Total current disbursements - general fund	<hr/> <hr/>
	\$ 5,945,978

See independent auditor's report.

CITY OF MARION, ARKANSAS

SCHEDULE OF CURRENT DISBURSEMENTS – STREET FUND – REGULATORY BASIS

For the Year Ended December 31, 2021

Highways and Streets	
Personnel services	\$ 718,878
Streets maintenance	402,421
Other services and charges	<u>509,003</u>
 Total current disbursements - street fund	 \$ <u><u>1,630,302</u></u>

See independent auditor's report.

CITY OF MARION, ARKANSAS

COMBINING BALANCE SHEET – OTHER FUNDS IN THE AGGREGATE – REGULATORY BASIS

December 31, 2021

<u>Assets</u>	<u>Water</u>	<u>Sewer</u>	<u>Capital Projects</u>	<u>District Court</u>	<u>Debt Service</u>	<u>Payroll</u>	<u>Fireman's Pension</u>	<u>Advertising & Promotion</u>	<u>Grants</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,220,123	\$ 3,545,624	\$ 13,153,165	\$ 332,205	\$ 1,343,403	\$ 110,895	\$ 25,572	\$ 1,232,060	\$ 860,134	\$ 21,823,181
Prepaid debt payment	-	25,446	-	-	-	-	-	-	-	25,446
Investments	-	-	-	-	-	-	124,163	-	-	124,163
Interfund receivables	-	105,749	-	-	-	-	537	-	3,336	109,622
Total assets	\$ 1,220,123	\$ 3,676,819	\$ 13,153,165	\$ 332,205	\$ 1,343,403	\$ 110,895	\$ 150,272	\$ 1,232,060	\$ 863,470	\$ 22,082,412
<u>Liabilities and Fund Balance</u>										
Liabilities										
Customer meter deposits	\$ 530,363	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 530,363
Settlements pending	-	-	-	302,262	-	-	-	-	-	302,262
Interfund payables	129,930	5,220	-	-	-	34,473	-	-	-	169,623
Due to other governments	14,288	21,989	-	-	-	-	-	-	-	36,277
Payable to State of Arkansas	25,630	-	-	29,943	-	-	-	-	-	55,573
Accounts payable - payroll fund	-	-	-	-	-	50,763	-	-	-	50,763
Total liabilities	700,211	27,209	-	332,205	-	85,236	-	-	-	1,144,861
Fund Balance										
Restricted	-	-	13,153,165	-	1,343,403	-	-	1,232,060	863,470	16,592,098
Assigned	-	-	-	-	-	25,659	150,272	-	-	175,931
Unassigned	519,912	3,649,610	-	-	-	-	-	-	-	4,169,522
Total fund balance	519,912	3,649,610	13,153,165	-	1,343,403	25,659	150,272	1,232,060	863,470	20,937,551
Total liabilities and fund balance	\$ 1,220,123	\$ 3,676,819	\$ 13,153,165	\$ 332,205	\$ 1,343,403	\$ 110,895	\$ 150,272	\$ 1,232,060	\$ 863,470	\$ 22,082,412

See independent auditor's report.

CITY OF MARION, ARKANSAS

**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES – OTHER FUNDS IN THE
AGGREGATE – REGULATORY BASIS**

For the Year Ended December 31, 2021

	Water	Sewer	Capital Projects	District Court	Debt Service	Payroll	Fireman's Pension	Advertising & Promotion	Grants	Total
Receipts										
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,001,122	\$ -	\$ -	\$ 388,943	\$ -	\$ 2,390,065
Interest income/(expense)	1,046	3,209	3,195	-	273	-	17,297	1,196	-	26,216
Service fees	1,005,542	1,102,917	-	-	-	-	-	-	-	2,108,459
Grants	-	-	-	-	-	-	-	-	1,275,206	1,275,206
Other	-	18,889	-	-	-	6,463	-	1,321	-	26,673
Total receipts	1,006,588	1,125,015	3,195	-	2,001,395	6,463	17,297	391,460	1,275,206	5,826,619
Disbursements										
Current:										
General government	415	-	-	-	-	-	-	365,932	-	366,347
Pension	5,990	-	-	-	-	-	37,193	-	-	43,183
City services	966,111	517,374	-	-	-	-	-	-	-	1,483,485
Capital projects	19,294	72,400	115,171	-	-	-	-	-	411,736	618,601
Total current	991,810	589,774	115,171	-	-	-	37,193	365,932	411,736	2,511,616
Debt Services:										
Bond principal	-	122,092	-	-	1,385,000	-	-	-	-	1,507,092
Bond interest and other charges	25	198,204	-	-	504,615	-	-	-	-	702,844
Total debt services	25	320,296	-	-	1,889,615	-	-	-	-	2,209,936
Total disbursements	991,835	910,070	115,171	-	1,889,615	-	37,193	365,932	411,736	4,721,552
Excess (deficiency) of receipts over disbursements	14,753	214,945	(111,976)	-	111,780	6,463	(19,896)	25,528	863,470	1,105,067
Other financing sources (uses):										
Bond proceeds	-	-	-	-	-	-	-	-	-	-
Transfers in/(out)	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other sources over disbursements and other uses	14,753	214,945	(111,976)	-	111,780	6,463	(19,896)	25,528	863,470	1,105,067
Fund balance, December 31, 2020	505,159	3,434,665	13,265,141	-	1,231,623	19,196	170,168	1,206,532	-	19,832,484
Fund balance, December 31, 2021	<u>\$ 519,912</u>	<u>\$ 3,649,610</u>	<u>\$ 13,153,165</u>	<u>\$ -</u>	<u>\$ 1,343,403</u>	<u>\$ 25,659</u>	<u>\$ 150,272</u>	<u>\$ 1,232,060</u>	<u>\$ 863,470</u>	<u>\$ 20,937,551</u>

See independent auditor's report.

CITY OF MARION, ARKANSAS

SCHEDULE OF CAPITAL ASSETS – GENERAL FUND – UNAUDITED

December 31, 2021

Land and Buildings	\$ 10,071,047
Equipment	11,774,351
Improvements	<u>5,206,203</u>
	<u>\$ 27,051,601</u>

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

To the City of Marion, Arkansas Officials and Council Members

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying regulatory basis financial statements of the general fund, street fund and other funds in the aggregate and the statements of budgetary comparison for the general fund and street fund, of the City of Marion, Arkansas, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 14, 2023. Our report expressed an adverse opinion on accounting principles generally accepted in the United States of America and an unmodified opinion on the regulatory basis of accounting.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Marion, Arkansas' 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 of Marion, Arkansas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Marion, Arkansas' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2021-001 that we consider to be a material weakness.

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, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses, as item 2021-002.

City of Marion, Arkansas' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Marion, Arkansas' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Marion, Arkansas' response and Management's Corrective Action Plan was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Watkins Wilkerson, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
April 14, 2023

CITY OF MARION, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2021

Material Weakness

2021-001 Deposits of Daily District Court Transactions

Criteria: Effective internal control over payments received due to District Court proceedings requires that they be maintained in a secure manner throughout the Court day and then deposited daily into a separate bank account established for that purpose which is maintained by the Court Clerk. In addition, the total of the amounts received for each month should be reconciled to the monthly statement received from the bank. Effective segregation of duties dictate that the monthly reconciliation should be performed by someone other than the Court Clerk as that individual is responsible for collecting the funds and making daily deposits.

Condition: Deposits were not being made on a timely basis, often weeks in arrears, and when made, appear to have been inconsistent with the amounts collected.

Cause: There was no reconciliation performed between the daily court report and the bank account and lack of segregation of duties over the deposit and reconciliation process.

Effect: The City suspects that fraud was perpetrated by the Court Clerk such that not all amounts collected during Court proceedings were deposited in the appropriate bank account. This situation is currently under investigation by Arkansas State Police.

Recommendation: Daily collections should be deposited every day at the conclusion of Court proceedings, and a report produced, made accessible to, and retained by other District Court officials. The totals of the daily reports should be reconciled to the bank statement on a monthly basis by an individual other than the Court Clerk.

Views of Responsible Officials: The District Court is under the supervision of the District Judge. Upon learning of the discrepancies in cash, the Judge terminated the employee in question and requested an investigation by the Arkansas State Police. We agree the procedures around control of cash and cash reconciliations at the district court should be improved. We have requested help from the software support staff of the Administrative Office of the Courts (AOC) to help bring the District Court reconciliations current. The District Court will implement new procedures to introduce additional segregation of duties and establish an improved daily cash balancing and monthly reconciliation process.

SECTION II – ARKANSAS MUNICIPAL ACCOUNTING LAW FINDING

2021-002 Deposits of Daily District Court Transactions

Criteria: Arkansas District Courts Accounting Law 16-10-209 contains the following provisions: (1) (E) Receipts shall be deposited intact daily into the separate bank account maintained by the Court Clerk; (1) (F) (ii) The receipts issued shall be reconciled with the monthly bank deposits; and (3)(A)(v) The receipts journal or electronic receipts listing shall be reconciled monthly to the total bank deposits as shown on the bank statements.

See previous discussion and elements of the finding under SECTION I – FINANCIAL STATEMENT FINDINGS

CITY OF MARION, ARKANSAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

December 31, 2021

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status/Current Year Finding Number</u>
2020-001	Reconciliation of Bank Accounts Not Performed Accurately or Timely - Original Finding 2020-001	Corrected
2020-002	Application of Fund Accounting - Original Finding 2020-002	Corrected

City of Marion

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CITY ATTORNEY
CHRISTOPHER CRAIN

DISTRICT COURT JUDGE
FRED THORNE

CITY TREASURER
DAVID W. RIKARD

CITY CLERK
PATTY JAMES

CITY COUNCIL

WARD I
KELSEY HENSLEY
ADAM CUPPLES

WARD II
CLIFF WOOD
TAYLOR GUY III

WARD III
BRYAN JACKSON
RAY NASSAR

MANAGEMENT'S CORRECTIVE ACTION PLAN

The City of Marion, Arkansas respectfully submits the following corrective action plan for the year ended December 31, 2023.

Corrective Action Plan Prepared by: David Rikard, City Treasurer

Name and address of independent public accounting firm:

Watkins Ulberall, PLLC
1661 Aaron Brenner Drive, Suite 300
Memphis, TN 38120

Audit Period: June 30, 2022

The findings from the December 31, 2021, schedule of findings and responses are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2021-001 and 2021-002 Deposits of Daily District Court Transactions

Person(s) Responsible for implementing the Corrective Action: District Court Judge

Anticipated Completion Date for Corrective Action: June 15, 2023

Planned Corrective Action:

The planned corrective action should resolve both item 2021-001 and 2021-002. The cash collection and reconciliation will be segregated between three distinct staff members:

1. Each Deputy Clerk who collects funds maintains their own cash drawer. At the end of their shift, they count and verify the funds collected matches the daily drawer total report from the court accounting system. They will deliver their report and cash to the Deputy Clerk responsible for preparing the bank deposit. The receiving clerk will verify the cash matches the report and initial the report to confirm.
2. One Deputy Clerk will be responsible for preparing the daily cash deposit and confirming the deposit total matches the cash expected per the court accounting system. This must be completed at the end of each day before the responsible court employees leave.
3. A second Deputy Clerk will be responsible for verifying the cash and checks total to the deposit slip and the cash expected per the court accounting system. The deposit will then be sealed in a disposable deposit bag and initialed by both employees. The deposit will then be placed in the safe by both employees and locked.
4. The next morning, the sealed deposit will be taken to the bank for deposit.

5. The verified deposit slip from the bank will be returned and matched with the previous day's deposit slip copy.
6. Monthly a third Deputy Clerk will reconcile the deposits per the bank account to the expected deposits for the month from the court accounting system. This will be completed no later than the 10th of the following month. The entire bank statement will be reconciled within the court accounting system and a balanced reconciliation report will be printed.
7. Monthly reconciliation reports and bank statements will be reviewed and initialed by the Chief Court Clerk prior to the 20th of each month.

Signature:  _____

City of Marion, Arkansas, City Treasurer