

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

December 31, 2022



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet – Regulatory Basis	4
Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis	5
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual – General Fund – Regulatory Basis	7
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual – Street Fund – Regulatory Basis	9
Notes to Financial Statements	10
SUPPLEMENTARY INFORMATION	
Schedule of Current Disbursements – General Fund – Regulatory Basis	22
Schedule of Current Disbursements – Street Fund – Regulatory Basis	23
Combining Balance Sheet – Other Funds in the Aggregate – Regulatory Basis	24
Combining Statement of Receipts, Disbursements and Changes in Fund Balances - Other Funds in the Aggregate – Regulatory Basis	25
Schedule of Capital Assets – General Fund – Unaudited	26
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 <i>GOVERNMENT AUDITING STANDARDS</i>	27
SCHEDULE OF FINDINGS AND RESPONSES	29
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	33
MANAGEMENT'S CORRECTIVE ACTION PLAN	34

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, 2022, 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, 2022, 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, 2022, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the City became aware of misappropriation of funds involving the District Court. Our opinions are not modified with respect to the 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 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 June 28, 2024 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
June 28, 2024

CITY OF MARION, ARKANSAS
BALANCE SHEET – REGULATORY BASIS

December 31, 2022

<u>Assets</u>	General Fund	Street Fund	Other Funds in the Aggregate	Total
Cash and cash equivalents	\$ 7,551,806	\$ 105,217	\$ 23,301,237	\$ 30,958,260
Other current assets	-	-	1,551	1,551
Other miscellaneous receivables	9,289	-	899	10,188
Interfund receivables	96,098	28,188	119,762	244,048
Total assets	\$ 7,657,193	\$ 133,405	\$ 23,423,449	\$ 31,214,047
 <u>Liabilities and Fund Balance</u>				
Liabilities				
Customer meter deposits	\$ -	\$ -	\$ 539,785	\$ 539,785
Settlements pending-District Court	-	-	392,891	392,891
Accounts payable	15,139	25,260	58,437	98,836
Payable to State of Arkansas	28,035	-	86,794	114,829
Interfund payables	19,700	51,262	173,086	244,048
Total liabilities	62,874	76,522	1,250,993	1,390,389
Fund Balance				
Restricted	100,483	56,883	17,569,246	17,726,612
Assigned	5,470,131	-	16,655	5,486,786
Unassigned	2,023,705	-	4,586,555	6,610,260
Total fund balance	7,594,319	56,883	22,172,456	29,823,658
Total liabilities and fund balance	\$ 7,657,193	\$ 133,405	\$ 23,423,449	\$ 31,214,047

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, 2022

	General Fund	Street Fund	Other Funds in the Aggregate	Total
Receipts				
State turnback	\$ 167,331	\$ 790,795	\$ -	\$ 958,126
Property taxes	1,148,227	126,057	-	1,274,284
Fines and forfeitures	212,627	-	-	212,627
District Court reimbursement	99,685	-	-	99,685
Franchise taxes	585,759	-	-	585,759
Sales taxes	3,701,700	396,506	2,582,459	6,680,665
Local permits	129,684	-	-	129,684
Investment income	6,765	81	200,616	207,462
Service fees	786,758	-	2,118,931	2,905,689
Federal aid	15,566	-	1,275,191	1,290,757
Other grants	306,806	-	-	306,806
Other	133,060	-	25,884	158,944
Total receipts	7,293,968	1,313,439	6,203,081	14,810,488
Disbursements				
Current:				
General government	1,241,486	-	528,381	1,769,867
Economic development	121,000	-	-	121,000
Law enforcement	2,792,920	-	-	2,792,920
Highways and streets	-	1,547,334	-	1,547,334
Public safety	523,207	-	-	523,207
Pension	292,417	-	42,909	335,326
Recreation and culture	380,244	-	-	380,244
City services	478,234	-	1,347,275	1,825,509
Capital projects	739,084	522,814	559,477	1,821,375
Total current disbursements	6,568,592	2,070,148	2,478,042	11,116,782

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, 2022

	General Fund	Street Fund	Other Funds in the Aggregate	Total
Debt Services:				
Bond principal	\$ -	\$ -	\$ 1,732,358	\$ 1,732,358
Bond interest and other charges	-	-	646,294	646,294
Note principal	81,648	-	9,485	91,133
Note interest	5,945	-	4,965	10,910
Total debt services	<u>87,593</u>	<u>-</u>	<u>2,393,102</u>	<u>2,480,695</u>
 Total disbursements	<u>6,656,185</u>	<u>2,070,148</u>	<u>4,871,144</u>	<u>13,597,477</u>
 Excess of receipts over disbursements	637,783	(756,709)	1,331,937	1,213,011
Other Financing Sources (Uses):				
Proceeds from Debt issuance	354,051	-	-	354,051
Transfer of pension assets to LOPFI	-	-	(94,376)	(94,376)
Transfers in	-	743,642	-	743,642
Transfers out	(740,987)	-	(2,655)	(743,642)
Total other financing sources (uses)	<u>(386,936)</u>	<u>743,642</u>	<u>(97,031)</u>	<u>259,675</u>
 Excess (deficiency) of receipts and other sources over disbursements and other uses	250,847	(13,067)	1,234,906	1,472,686
 Fund balance, December 31, 2021	<u>7,343,472</u>	<u>69,950</u>	<u>20,937,550</u>	<u>28,350,972</u>
 Fund balance, December 31, 2022	<u>\$ 7,594,319</u>	<u>\$ 56,883</u>	<u>\$ 22,172,456</u>	<u>\$ 29,823,658</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, 2022

	Budget	Actual	Favorable (Unfavorable) Variance
Receipts			
State turnback	\$ 203,137	\$ 167,331	\$ (35,806)
Property taxes	1,163,354	1,148,227	(15,127)
Fines and forfeitures	330,975	212,627	(118,348)
District Court reimbursement	105,983	99,685	(6,298)
Franchise taxes	562,381	585,759	23,378
Sales taxes	3,321,485	3,701,700	380,215
Local permits	119,489	129,684	10,195
Interest	37,047	6,765	(30,282)
Federal aid	4,282	15,566	11,284
Grants	-	306,806	306,806
Service Fees	774,564	786,758	12,194
Other	63,345	133,060	69,715
Total receipts	6,686,042	7,293,968	607,926
Disbursements			
Current:			
General government	1,365,139	1,241,486	(123,653)
Economic development	121,743	121,000	(743)
Law enforcement	2,459,748	2,792,920	333,172
Public safety	619,427	523,207	(96,220)
Pension	255,886	292,417	36,531
Recreation and culture	391,300	380,244	(11,056)
City services	511,221	478,234	(32,987)
Capital projects	562,938	739,084	176,146
Total current	6,287,402	6,568,592	281,190

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, 2022

	Budget	Actual	Favorable (Unfavorable) Variance
Debt Services:			
Note principal	\$ 6,867	\$ 81,648	\$ (74,781)
Note interest	1,409	5,945	(4,536)
Total debt services	8,276	87,593	(79,317)
Total disbursements	6,295,678	6,656,185	201,873
Excess of receipts over disbursements	390,364	637,783	247,419
Other Financing Sources (Uses):			
Proceeds from Debt issuance	-	354,051	(354,051)
Transfers in	-	-	-
Transfers out	-	(740,987)	(740,987)
Total other financing sources	-	(386,936)	(740,987)
Excess (deficiency) of receipts and other sources over disbursements and other uses	390,364	250,847	(493,568)
Fund balance, December 31, 2021	7,343,472	7,343,472	-
Fund balance, December 31, 2022	\$ 7,733,836	\$ 7,594,319	\$ (493,568)

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, 2022

	Budget	Actual	Favorable (Unfavorable) Variance
Receipts			
State turnback	\$ 713,559	\$ 790,795	\$ 77,236
Property taxes	125,499	126,057	558
Sales taxes	338,338	396,506	58,168
Interest	-	81	81
Total receipts	<u>1,177,396</u>	<u>1,313,439</u>	<u>136,043</u>
Disbursements			
Current:			
Highways and streets	1,301,158	1,547,334	(246,176)
Capital projects	402,272	522,814	(120,542)
Total disbursements	<u>1,703,430</u>	<u>2,070,148</u>	<u>(366,718)</u>
Excess (deficiency) of receipts over disbursements	(526,034)	(756,709)	(230,675)
Other Financing Sources (Uses):			
Transfers in	<u>740,987</u>	<u>743,642</u>	<u>2,655</u>
Excess (deficiency) of receipts and other sources over disbursements and other uses	214,953	(13,067)	(228,020)
Fund balance, December 31, 2021	<u>69,950</u>	<u>69,950</u>	<u>-</u>
Fund balance, December 31, 2022	<u><u>\$ 284,903</u></u>	<u><u>\$ 56,883</u></u>	<u><u>\$ (228,020)</u></u>

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

CITY OF MARION, ARKANSAS
NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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 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 receipts, 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 bond 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

State law requires collateralization of all deposits with the FDIC and other collateral in specific amounts to cover risk of loss. At December 31, 2022, 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.

As of December 31, 2022, the City's money market accounts consisted of the following:

	Cost	Fair Market Value
Money Markets		
General Fund	\$ 5,739,590	\$ 5,739,590
Other funds	3,881,045	3,881,045
Total money markets	<u>\$ 9,620,635</u>	<u>\$ 9,620,635</u>

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.

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 previously held Investments in mutual funds which were reported at fair value. As discussed in Note 10, all investments were transferred to the Local Police & Fire Retirement System ("LOPFI") as the local pension plan was merged into the statewide LOPFI Plan.

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.

NOTE 4 – DETAILS OF FUND BALANCE CLASSIFICATIONS

Fund balance classifications at December 31, 2022 are composed of the following:

Description	General Fund	Street Fund	Other Funds in the Aggregate
Restricted for:			
Advertising and promotion	\$ -	\$ -	\$ 1,143,318
Highway and streets	-	56,883	-
Debt service	-	-	1,414,076
Capital improvements/equipment	-	-	13,276,409
ARPA	-	-	1,735,443
ACT 833	100,483	-	-
Total restricted	<u>100,483</u>	<u>56,883</u>	<u>17,569,246</u>
Assigned for:			
Capital improvements/equipment	5,293,119	-	-
Payroll	-	-	16,028
Pension benefits	-	-	627
Fire equipment	16,927	-	-
Parks improvements	85,616	-	-
Sultana exhibit	40,888	-	-
Animal shelter	33,581	-	-
Total assigned	<u>5,470,131</u>	<u>-</u>	<u>16,655</u>
Unassigned	<u>2,023,705</u>	<u>-</u>	<u>4,586,555</u>
Total fund balances	<u>\$ 7,594,319</u>	<u>\$ 56,883</u>	<u>\$ 22,172,456</u>

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, 2022
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, 2022:

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.	\$ 11,355,000
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.	4,361,198
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.	60,554
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.	87,545
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.	224,072
Note payable to Southern Bancorp, dated December 19, 2022, payable in 25 monthly payments of \$5,614, including interest at 4.5% and maturing January 2025. Payments are made from the General Fund, collateralized by a garbage truck.	354,050
	<u>\$ 16,442,419</u>

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
2023	\$ 537,286	\$ 690,555	\$ 154,248	\$ 19,864	\$ 40,213	\$ 1,766	\$ 731,747	\$ 712,185
2024	527,596	677,500	120,819	14,489	41,292	688	689,707	692,677
2025	548,077	656,019	322,096	9,083	6,040	8	876,213	665,110
2026	568,793	633,703	6,992	3,339	-	-	575,785	637,042
2027	594,753	610,542	7,342	2,989	-	-	602,095	613,531
2028-2032	3,372,546	2,645,433	27,178	9,058	-	-	3,399,724	2,654,491
2033-2037	4,090,035	1,938,133	-	-	-	-	4,090,035	1,938,133
2038-2042	4,877,570	1,146,255	-	-	-	-	4,877,570	1,146,255
2043-2047	599,543	288,923	-	-	-	-	599,543	288,923
	<u>\$ 15,716,198</u>	<u>\$ 9,287,063</u>	<u>\$ 638,675</u>	<u>\$ 58,822</u>	<u>\$ 87,545</u>	<u>\$ 2,462</u>	<u>\$ 16,442,419</u>	<u>\$ 9,348,347</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

The City reimbursed the Mayor and the City Attorney \$7,200 each for office expenses in 2022. The City purchased contractual chemical supplies totaling \$23,676 during 2022 from a company who employs a City Councilman.

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 not complied, in all material respects, with the law. Instances of noncompliance are noted in the Schedule of Findings and Responses which accompanies the 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*.
- (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 was a single-employer defined benefit pension plan that covered municipal firemen employed prior to January 1, 1983. The plan, administered by the City, provided 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 did not issue a stand-alone financial report but was 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.

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. All investments previously held by the Firemen's Relief Pension fund were transferred to LOPFI on November 8, 2022, and LOPFI took over management of the investment funds, pension payments and related reporting on January 1, 2023. Cash funds on hand were used to pay retirement benefits for the month of December 2022.

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.

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, 2022.

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 June 28, 2024, which is the date the financial statements were available to be issued.

Issuance of Debt

During 2023, the City purchased two garbage trucks and financed the purchases through the issuance of notes payable to a bank totaling \$444,181. Payments, including interest at 5.15 percent, will be made from the General fund. The notes are collateralized by the garbage trucks.

Fraud Investigation

In December 2022, the City became aware of misappropriation of funds involving the District Court. The matter was turned over to Arkansas State Police, which resulted in charges of theft and forgery. In addition, Arkansas Legislative Audit conducted an investigation and issued its report dated January 22, 2024. It was determined that funds in excess of \$400,000 were not properly deposited into to the Court bank account for further distribution to the City, Crittenden County, and the State of Arkansas. The City has Fidelity Bond coverage through the Self-Insured Fidelity Bond Program administered by the Arkansas Governmental Bonding Board and expects to recover its share of the misappropriated funds under this program.

SUPPLEMENTARY INFORMATION

CITY OF MARION, ARKANSAS

SCHEDULE OF CURRENT DISBURSEMENTS – GENERAL FUND – REGULATORY BASIS

For the Year Ended December 31, 2022

General Government	
Personnel services	\$ 438,574
Other services and charges	802,912
	<hr/>
	1,241,486
Economic Development	
Other services and charges	121,000
Law Enforcement	
Personnel services	1,836,738
Supplies	5,325
Other services and charges	950,857
	<hr/>
	2,792,920
Public Safety	
Personnel services	264,760
Supplies	11,426
Other services and charges	247,021
	<hr/>
	523,207
Pension	292,417
Recreation and Culture	
Personnel services	188,086
Supplies	14,487
Other services and charges	177,671
	<hr/>
	380,244
City Services	
Sanitation	478,234
Capital Projects	<hr/>
	739,084
	<hr/>
Total current disbursements - general fund	\$ 6,568,592

See independent auditor's report.

CITY OF MARION, ARKANSAS

SCHEDULE OF CURRENT DISBURSEMENTS – STREET FUND – REGULATORY BASIS

For the Year Ended December 31, 2022

Highways and Streets	
Personnel services	\$ 821,949
Streets maintenance	89,237
Other services and charges	<u>636,148</u>
Total current disbursements - street fund	1,547,334
Capital Projects	<u>522,814</u>
Total current disbursements - street fund	<u><u>\$ 2,070,148</u></u>

See independent auditor's report.

CITY OF MARION, ARKANSAS

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

December 31, 2022

<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	\$ 1,057,885	\$ 4,165,494	\$ 13,276,409	\$ 422,834	\$ 1,414,076	\$ 86,802	\$ 627	\$ 1,141,667	\$ 1,735,443	\$ 23,301,237
Other current assets	-	-	-	-	-	-	-	1,551	-	1,551
Other miscellaneous receivables	899	-	-	-	-	-	-	-	-	899
Interfund receivables	12,715	106,947	-	-	-	-	-	100	-	119,762
Total assets	\$ 1,071,499	\$ 4,272,441	\$ 13,276,409	\$ 422,834	\$ 1,414,076	\$ 86,802	\$ 627	\$ 1,143,318	\$ 1,735,443	\$ 23,423,449
<u>Liabilities and Fund Balance</u>										
Liabilities										
Customer meter deposits	\$ 539,785	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 539,785
Settlements pending	-	-	-	392,891	-	-	-	-	-	392,891
Accounts payable	-	2,043	-	-	-	56,394	-	-	-	58,437
Payable to State of Arkansas	56,851	-	-	29,943	-	-	-	-	-	86,794
Interfund payables	158,706	-	-	-	-	14,380	-	-	-	173,086
Total liabilities	755,342	2,043	-	422,834	-	70,774	-	-	-	1,250,993
Fund Balance										
Restricted	-	-	13,276,409	-	1,414,076	-	-	1,143,318	1,735,443	17,569,246
Assigned	-	-	-	-	-	16,028	627	-	-	16,655
Unassigned	316,157	4,270,398	-	-	-	-	-	-	-	4,586,555
Total fund balance	316,157	4,270,398	13,276,409	-	1,414,076	16,028	627	1,143,318	1,735,443	22,172,456
Total liabilities and fund balance	\$ 1,071,499	\$ 4,272,441	\$ 13,276,409	\$ 422,834	\$ 1,414,076	\$ 86,802	\$ 627	\$ 1,143,318	\$ 1,735,443	\$ 23,423,449

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, 2022

	Water	Sewer	Capital Projects	District Court	Debt Service	Payroll	Fireman's Pension	Advertising & Promotion	Grants	Total
Receipts										
Sales taxes	\$ -	\$ -	\$ -	\$ -	\$ 2,151,194	\$ -	\$ -	\$ 431,265	\$ -	\$ 2,582,459
Investment income/(loss)	1,172	3,504	196,190	-	17,730	-	(19,178)	1,198	-	200,616
Service fees	1,011,584	1,107,347	-	-	-	-	-	-	-	2,118,931
Federal Aid	-	-	-	-	-	-	-	-	1,275,191	1,275,191
Other	5,752	19,932	-	-	-	-	-	200	-	25,884
Total receipts	1,018,508	1,130,783	196,190	-	2,168,924	-	(19,178)	432,663	1,275,191	6,203,081
Disbursements										
Current:										
General government	-	-	-	-	-	9,631	-	518,750	-	528,381
Pension	6,819	-	-	-	-	-	36,090	-	-	42,909
City services	1,139,552	207,723	-	-	-	-	-	-	-	1,347,275
Capital projects	75,892	7,421	72,946	-	-	-	-	-	403,218	559,477
Total current	1,222,263	215,144	72,946	-	-	9,631	36,090	518,750	403,218	2,478,042
Debt Services:										
Bond principal	-	92,358	-	-	1,640,000	-	-	-	-	1,732,358
Bond interest and other charges	-	188,043	-	-	458,251	-	-	-	-	646,294
Note principal	-	9,485	-	-	-	-	-	-	-	9,485
Note interest	-	4,965	-	-	-	-	-	-	-	4,965
Total debt services	-	294,851	-	-	2,098,251	-	-	-	-	2,393,102
Total disbursements	1,222,263	509,995	72,946	-	2,098,251	9,631	36,090	518,750	403,218	4,871,144
Excess (deficiency) of receipts over disbursements	(203,755)	620,788	123,244	-	70,673	(9,631)	(55,268)	(86,087)	871,973	1,331,937
Other financing sources (uses):										
Transfer of pension assets to LOPFI	-	-	-	-	-	-	(94,376)	-	-	(94,376)
Transfers in/(out)	-	-	-	-	-	-	-	(2,655)	-	(2,655)
Total other financing sources (uses)	-	-	-	-	-	-	(94,376)	(2,655)	-	(97,031)
Excess (deficiency) of receipts and other sources over disbursements and other uses	(203,755)	620,788	123,244	-	70,673	(9,631)	(149,644)	(88,742)	871,973	1,234,906
Fund balance, December 31, 2021	519,912	3,649,610	13,153,165	-	1,343,403	25,659	150,271	1,232,060	863,470	20,937,550
Fund balance, December 31, 2022	<u>\$ 316,157</u>	<u>\$ 4,270,398</u>	<u>\$ 13,276,409</u>	<u>\$ -</u>	<u>\$ 1,414,076</u>	<u>\$ 16,028</u>	<u>\$ 627</u>	<u>\$ 1,143,318</u>	<u>\$ 1,735,443</u>	<u>\$ 22,172,456</u>

See independent auditor's report.

CITY OF MARION, ARKANSAS

SCHEDULE OF CAPITAL ASSETS – GENERAL FUND – UNAUDITED

December 31, 2022

Land and Buildings	\$ 10,095,317
Equipment	12,520,431
Improvements	<u>4,951,256</u>
	\$ 27,567,004

**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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2024. 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 certain deficiencies in internal control, described in the accompanying schedule of findings and responses, as items 2022-001 through 2022-004 that we consider to be material weaknesses.

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, collectively, as item 2022-005.

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



Memphis, Tennessee
June 28, 2024

CITY OF MARION, ARKANSAS
SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2022

Material Weaknesses

2022-001 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: Receipts were not issued for all funds received. 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. There was no reconciliation performed between the daily distribution reports and the bank account and there was lack of segregation of duties over the deposit and reconciliation process.

Cause: Lack of management oversight and inadequate segregation of duties.

Effect: Court receipts of approximately \$400,000 were not deposited over a four year period.

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 distribution 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. A corrective action plan to address these issues is attached.

2022-002 Delayed or Omitted Processing of Monetary Settlements

Criteria: Payment of funds received should be paid to City Treasurer, County Treasurer and State Administration of Justice on or before the tenth day of the month following collection by the Court. Payment of restitution, received on behalf of third parties should be paid to third parties and supported by adequate documentation. Checks, including their relevant docket numbers, should be issued for bond refunds.

Condition: Payments for court transactions occurring in 2021 were not received by the City General Fund until March 2022. Payments for other months- January through May 2022- were not received until approximately two months after transaction period. No payments were received for the months of June through November 2022. Checks were not issued for all bond refunds recorded in the court software, and those checks that were issued did not contain docket numbers. Restitution payments were made without proper documentation.

Cause: Lack of oversight and review for timely receipt of monthly payments and failure to follow appropriate procedures.

Effect: Payments were not received on timely basis and made available to the City for general services.

CITY OF MARION, ARKANSAS

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

December 31, 2022

Recommendation: We suggest that Accounting utilize a monthly closing checklist which can be used to monitor timely receipt of payments due monthly from all recurring sources. A listing of amounts payable to other third parties should be accumulated throughout the month and reconciled to disbursements to be made on or before the tenth of the month following the transaction.

Views of Responsible Officials: The District Court is under the supervision of the District Judge. We agree the procedures around payment of monthly settlement amounts should be improved. A corrective action plan to address these issues is attached.

2022-003 Segregation of Duties

Criteria: Proper internal controls require the division of responsibility for the various functions of cash transactions - receipt of cash from defendants or other parties, access to undeposited funds, deposit of funds into bank accounts, disbursement of funds, and reconciliation of transactions recorded in the court system to the bank statements.

Condition: There was one individual who performed all functions, including applying the signature stamp on checks.

Cause: Incompatible responsibilities assigned to one person and lack of oversight and review.

Effect: Assets were misappropriated.

Recommendation: The Court should divide responsibilities between those collecting cash and those making deposits. Deposits to the bank should be made on a daily basis. Cashiers should verify that cash collected agrees with amounts deposited as performed by a different court employee. A member of management should reconcile the monthly bank statement with each of the deposit slips retained and determine that deposits were made in amounts which agreed to the total of transactions for the month. The individual with responsibility for signing checks should maintain the security of the signature stamp which should be used only with his specific authorization.

Views of Responsible Officials: The District Court is under the supervision of the District Judge. We agree the division of duties within the District Court related to handling receipt and disbursement of funds should be improved. A corrective action plan to address these issues is attached.

2022-004 Court Defendant Installment Plans

Criteria: Installment payment plans allowed by the District Court Judge should be monitored, including pursuing collection of payment or other appropriate action for plans for which a payment has not been received within the past 30 days. Control totals should be reconciled monthly with the individual payment accounts.

Condition: Court records indicate significant amounts outstanding over a period of several years, with little to no monitoring being performed on outstanding balances. It was noted in testing of a sample of sixty dockets that six of those which had indicated to be subject to payment plans were unpaid or associated with incorrect payment plan information. It was also noted that there were multiple payment plans in plans for certain individuals.

CITY OF MARION, ARKANSAS

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

December 31, 2022

Cause: Lack of oversight and payment plan monitoring and limited training for use of Contexte software.

Effect: Excessive balances are outstanding with no actions taken to collect or to issue warrants if appropriate.

Recommendation: Court employees should be trained on the use of Contexte software in order to be aware of the reports and information that can be used to monitor the accounts. Reports should be reviewed monthly by the presiding judge who can then take appropriate action for those accounts having no payments within the last 30 days.

Views of Responsible Officials: The District Court is under the supervision of the District Judge. We agree the procedures for handling defendant installment payment plans should be improved. A corrective action plan to address these issues is attached.

SECTION II – ARKANSAS MUNICIPAL ACCOUNTING LAW FINDING

2022-005 Noncompliance with Arkansas District Court Accounting Law

Criteria: Arkansas District Courts Accounting Law 16-10-209 contains the following provisions:

(1)(A) A prenumbered receipt must be issued for all monies collected.

(1)(B)(ii) All void or spoiled receipts must be accounted for by attaching the original copy of the receipt to the duplicate copy of the receipt in the receipt book, with the reason for the void or spoiled receipt documented and retained for audit purposes.

(1) (E) Receipts shall be deposited intact daily into the separate bank account maintained by the Court Clerk;

(1) (F) (i) The bank deposit slips prepared by the court clerk shall contain the range of receipt numbers evidencing such collections

(1) (F) (ii) The receipts issued shall be reconciled with the monthly bank deposits;

(1) (G) A bank reconciliation shall be made at the end of each month, and any balance remaining in the bank account shall be identified with receipt numbers for cases not yet adjudicated and the payment made on all unpaid individual time accounts.

(2) (E) The Court Clerk shall make a direct monetary settlement on or before the tenth day of the next-following month with (i) The city treasurer; (ii) The county treasurer; (iii) The Administration of Justice Funds Section of the Department of Finance and Administration;

(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.

(4) (B) (i) All bond refunds shall be made only by a check drawn on the court's bank account. (ii) Additionally, the check shall indicate the court docket number for authorization.

(5) (E) (i) The court clerk shall furnish the county or city official, agency, or department designated under § 16-13-709 as primarily responsible for the collection of fines assessed in district courts and the presiding judge monthly with a list of all unpaid installment payment accounts for which a payment has not been received within the past thirty (30) days.

Condition: The following discrepancies were noted.

CITY OF MARION, ARKANSAS

SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)

December 31, 2022

- Prenumbered receipts were not issued for all funds collected.
- Manual receipts were not issued in sequential order, were not properly voided with all copies retained, and did not consistently indicate method of payment.
- Receipts were not deposited intact daily.
- Deposit slips did not contain the range of receipts numbers being deposited.
- Receipts issued were not reconciled with monthly bank deposits.
- Balances remaining in the bank were not identified with receipts issued for cases not yet adjudicated and the payments made on all unpaid individual time accounts Deposits and withdrawals per the bank statement were not reconciled to receipt and disbursement journals monthly.
- The Court Clerk did not make direct monetary settlements on or before the tenth day of each month to the City Treasurer, County Treasurer, State Administration of Justice funds and other agencies that were due fines, costs or fees assessed and collected by the Court.
- Cash receipt and disbursement journals were not properly maintained.
- Checks were not issued for all bond refunds due and docket numbers were not entered on the checks that were issued.
- The Court did not furnish the presiding judge a monthly list of all installment payment accounts for which a payment had not been received within the past 30 days.
- Restitution, received as payable to third parties, was disbursed without proper documentation.
- The Court had \$125,629 in outstanding checks recorded that were over one year old as of December 31, 2022.
- Supporting documentation was not maintained for nonmonetary credits adjusting fines and costs owed for judge's adjustments and jail time served.

Cause: City and Court management did not exercise proper oversight of fiscal operations or the Court or establish internal controls

Effect: Misappropriation of assets and delay in providing funds to City, County and State agencies.

Recommendation: Enhanced oversight by both Court and City officials. Training of employees regarding the required accounting procedures specified in Ark. Code Ann. Section 16-10-209. Additional training to court employees to promote understanding of the Contexte software system. Realignment of accounting functions within the District Court to provide appropriate segregation of duties.

Views of Responsible Officials: The District Court is under the supervision of the District Judge. We agree the procedures for handling funds collected by the District Court should be improved to ensure compliance with the Arkansas District Court Account Law. A corrective action plan to address these issues is attached.

CITY OF MARION, ARKANSAS

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

December 31, 2022

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status/Current Year Finding Number</u>
2021-001	Deposits of Daily District Court Transactions (Original Finding 2021-001)	Repeat Finding - 2022-001
2021-002	Deposits of Daily District Court Transactions (Original Finding 2021-002)	Repeat Finding - 2022-005



13 Military Road
P.O. Box 717
Marion, AR 72364

PHONE
(870) 739-5410

FAX
(870) 739-2703



Mayor
Tracy Brick
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

EMAIL

info@marionarkansas.org

MARIONARKANSAS.ORG

MANAGEMENT'S CORRECTIVE ACTION PLAN

The City of Marion, Arkansas respectfully submits the following corrective action plan for the year ended December 31, 2024.

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: December 31, 2022

The findings from the December 31, 2022, schedule of findings and responses are discussed in the following pages. The findings are numbered consistently with the numbers assigned in the Schedule of Findings and Responses.

2022-001 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 2022-001 and 2022-003. The cash collection and reconciliation will be segregated between distinct staff members:

1. The Court Clerk has assigned two Deputy Clerks to receive payments with each Deputy Clerk maintaining their own cash drawer.
2. Both drawers will be closed at 4:15 pm daily. At the close, the Deputy Clerks will 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.
3. 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.
4. The Chief Clerk will verify the funds received match the court accounting system and prepare the deposit slip. The funds and deposit slip will be placed in a locked bank deposit bag and a Deputy Clerk will take the deposit to the bank that day.
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.

2022-002 Delayed or Omitted Processing of Monetary Settlements

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

Anticipated Completion Date for Corrective Action: December 31, 2023

Planned Corrective Action:

The planned corrective action to monitor timely settlements will be the following procedures.

1. Checks are to be issued by the 10th of each month. The Judge will review the check report each month to ensure that checks have been issued.
2. Additionally, on the 20th of each month, the City Financial Accountant will check to ensure a deposit from the District Court for the prior months fees has been received. If the deposit has not been received, the accountant will alert the Judge, City Treasurer and Mayor.

2022-003 Segregation of Duties

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

Anticipated Completion Date for Corrective Action: December 31, 2023

Planned Corrective Action:

The planned corrective action should resolve both item 2021-001 and 2021-003. The cash collection and reconciliation will be segregated between distinct staff members:

1. The Court Clerk has assigned two Deputy Clerks to receive payments with each Deputy Clerk maintaining their own cash drawer.
2. Both drawers will be closed at 4:15 pm daily. At the close, the Deputy Clerks will 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.
3. 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.
4. The Chief Clerk will verify the funds received match the court accounting system and prepare the deposit slip. The funds and deposit slip will be placed in a locked bank deposit bag and a Deputy Clerk will take the deposit to the bank that day.
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.

2022-004 Court Defendant Installment Plans

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

Anticipated Completion Date for Corrective Action: December 31, 2023

Planned Corrective Action:

The planned corrective action to monitor defendant installment plans will be the following procedures.

1. At the month end close of the court accounting system, a report of the status of all installment payments is printed.
2. The list is provided to the Judge for review and determination if a non payment warrant or open summons should be issued. The Judge has discretion as the timing of warrants issued.
3. All payment plans are reviewed monthly.

2022-005 Noncompliance with Arkansas District Court Accounting Law

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

Anticipated Completion Date for Corrective Action: December 31, 2023

Planned Corrective Action:

The planned corrective action to monitor compliance with Arkansas District Court Accounting Law will be the following procedures.

1. No manual receipts will be accepted. If the court accounting system is down and unable to issue prenumbered receipts, the payor will have to come back at a later date to make payment.
2. The corrective action plan for 2022-001 covers the following noted items:
 - a. Daily receipts are reconciled and deposited intact.
 - b. The court accounting system reports are filed with the deposit slip to reflect the range of receipts covered by the deposit.
 - c. Reconciliation of the monthly receipts to the court accounting system
 - d. The daily receipt journal from the court system is reconciled and filed with the daily deposit.
3. The corrective action plan for 2022-002 addresses the timely issuance of settlement checks.
4. All checks are now issued through the court accounting system and they have the docket numbers included when necessary.
5. The corrective action plan for 2022-004 addresses the monthly reporting to the Judge of all installment plans.
6. A Deputy Clerk prints the settlement checks each month with the court system report supporting the check. The Chief Clerk reviews the supporting reports and signs the check. The checks are then reviewed by the Judge and he is the second signer.
7. The court system reflected a large amount of uncleared outstanding checks. The court hired an outside consultant to research the checks and determine if they are truly outstanding or if the clearing date was never recorded. Once cleaned up, the Chief Court Clerk will review the bank reconciliation each month to determine if there are old checks outstanding and take appropriate action to contact the payee.
8. Nonmonetary credit such as jail time credits will be scanned into the defendant's case file when the credit is applied to the case. The following procedures will be followed:
 - a. The county jail administrator forwards an initialed monthly time served log and an assigned deputy clerk will scan said log into the court's system to be kept as a record.
 - b. The court, before entering jail credit, will receive a time pay sheet, with the individual's jail credit which has the county jail administrator initials.
 - c. The time pay sheet will be scanned into the individual's case through the court accounting system.
 - d. The court clerk maintains a manual docket for each individual containing his/her name, charge, plea, finding, fines general and cost owed. This information is then scanned into the individual's case through the court accounting system.

Signature: 

City of Marion, Arkansas, City Treasurer