

City of Paris, Arkansas

**Financial Statements
December 31, 2021**

(With Independent Auditor's Report Thereon)

City of Paris, Arkansas

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Paris, Arkansas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying statements of the general fund; street fund; electric, water, and sewer funds in the aggregate; and other funds in the aggregate of the City of Paris, Arkansas (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances of the funds as presented of the City as of December 31, 2021, and their respective revenues, expenditures, and changes in fund balances and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the State of Arkansas (State) described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City as of December 31, 2021, or changes in financial position thereof for the year then ended.

Basis for Opinion

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

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

As described in Note 2 of the financial statements, the financial statements are prepared by the City on the basis of accounting practices prescribed or permitted by the State to demonstrate compliance with the State's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting

To the Mayor and City Council
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principles generally accepted in the United States of America, to meet the requirements of the State. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 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 accounting practices prescribed or permitted by the State to demonstrate compliance with the State's regulatory basis of accounting and budget laws. 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

To the Mayor and City Council
City of Paris, Arkansas

Other Matters

Required Supplementary Information

Accounting practices prescribed or permitted by the State, which practices differ from accounting principles generally accepted in the United States of America, require that certain supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the State, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is 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 information has 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
November 3, 2022

Basic Financial Statements

City of Paris

Statement of Assets, Liabilities, and Fund Balance – Modified Cash Basis December 31, 2021

	General Fund	Street Fund	Electric, Water and Sewer Funds	Other Funds	Total
ASSETS					
Cash					
Unrestricted	\$ 255,456	\$ 141,872	\$ 618,991	\$ 49,894	\$ 1,066,213
Restricted	-	-	68,427	33,461	101,888
Certificates of deposit					
Unrestricted	348,759	-	353,615	-	702,374
Restricted	-	6,641	187,385	-	194,026
Investments - restricted	-	-	-	186,026	186,026
Inventory	-	-	226,759	-	226,759
Fixed assets (net of accumulated depreciation)	3,624,578	1,136,478	4,219,433	341,361	9,321,850
TOTAL ASSETS	<u>\$ 4,228,793</u>	<u>\$ 1,284,991</u>	<u>\$ 5,674,610</u>	<u>\$ 610,742</u>	<u>\$ 11,799,136</u>
LIABILITIES AND FUND BALANCE					
Current maturities of long-term debt	\$ -	\$ 23,465	\$ 186,526	\$ 27,975	\$ 237,966
Taxes withheld and payable	-	-	19,094	-	19,094
Customer deposits	-	-	68,427	-	68,427
Long-term debt	-	83,301	80,172	60,190	223,663
Total Liabilities	<u>-</u>	<u>106,766</u>	<u>354,219</u>	<u>88,165</u>	<u>549,150</u>
FUND BALANCE					
Governmental funds:					
Restricted					
Cemetery maintenance	-	-	-	11,556	11,556
Court system	-	-	-	3,920	3,920
Sidewalk construction	-	6,641	-	-	6,641
Assigned					
Cemetery maintenance	-	-	-	36,103	36,103
Streets and highways	-	1,171,584	-	-	1,171,584
Airport commission	10,070	-	-	-	10,070
Train project	533	-	-	-	533
Unassigned	4,218,190	-	-	266,987	4,485,177
Proprietary and fiduciary funds:					
Invested in fixed assets, net of related debt	-	-	3,952,735	-	3,952,735
Restricted - Firemen's Pension and Relief Fund	-	-	-	204,011	204,011
Restricted	-	-	187,385	-	187,385
Unrestricted	-	-	1,180,271	-	1,180,271
Total Fund Balance	<u>4,228,793</u>	<u>1,178,225</u>	<u>5,320,391</u>	<u>522,577</u>	<u>11,249,986</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,228,793</u>	<u>\$ 1,284,991</u>	<u>\$ 5,674,610</u>	<u>\$ 610,742</u>	<u>\$ 11,799,136</u>

See accompanying notes to financial statements.

City of Paris

Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis Year ended December 31, 2021

	General Fund	Street Fund	Electric, Water and Sewer Funds	Other Funds	Total
REVENUES					
Charges for services	\$ -	\$ -	\$ 4,882,009	\$ 8,927	\$ 4,890,936
Taxes and assessments	1,213,638	333,801	-	328,426	1,875,865
Grant income	9,450	-	-	-	9,450
Federal funds	164,465	-	348,584	-	513,049
Licenses and permits	50,010	-	-	-	50,010
Fines and fees	47,520	-	-	83,715	131,235
Contributions					
State	-	-	-	2,837	2,837
County	-	-	-	13,397	13,397
Investment return	41	78	2,861	14,112	17,092
Rent	29,160	-	-	-	29,160
Miscellaneous	59,483	-	43,957	6,444	109,884
Total Revenues	<u>1,573,767</u>	<u>333,879</u>	<u>5,277,411</u>	<u>457,858</u>	<u>7,642,915</u>
EXPENDITURES					
Operations and Maintenance					
Energy purchased	-	-	2,486,409	-	2,486,409
Maintenance of systems	-	-	151,426	-	151,426
Cost of operating equipment	26,306	32,777	41,760	32,015	132,858
Salaries	693,755	217,117	534,888	64,819	1,510,579
Plant expense	-	-	38,751	-	38,751
Chemicals	-	-	102,390	-	102,390
Departmental operating expenses	87,878	-	-	70,947	158,825
Depreciation	239,571	107,860	288,923	35,743	672,097
Other operating expenses	303,708	-	-	-	303,708
General and Administrative					
Salaries	190,239	-	93,566	-	283,805
Supplies	-	-	21,704	-	21,704
Travel expense	-	-	2,004	-	2,004
Telephone	-	301	7,590	-	7,891
Professional services	13,769	5,435	17,970	3,700	40,874
Insurance	317,388	39,367	117,308	8,964	483,027
Payroll taxes	65,212	16,396	47,777	4,894	134,279
Employee retirement	118,311	26,387	91,396	8,755	244,849
Pension payments	-	-	-	34,037	34,037
Dues and donations	-	-	3,922	-	3,922
Miscellaneous	28,626	396	44,920	10,051	83,993
Debt Service					
Interest expense	-	-	30,656	5,741	36,397
Other					
Logan County Treasurer	-	-	-	46,112	46,112
Sales tax remittance to hospital	-	-	-	328,426	328,426
Grants given	43,586	-	-	-	43,586
Investment fees	-	-	-	1,015	1,015
Arkansas Dept of Finance and Administration	-	-	-	28,492	28,492
Total Expenditures	<u>2,128,349</u>	<u>446,036</u>	<u>4,123,360</u>	<u>683,711</u>	<u>7,381,456</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS	<u>(554,582)</u>	<u>(112,157)</u>	<u>1,154,051</u>	<u>(225,853)</u>	<u>261,459</u>

See accompanying notes to financial statements.

City of Paris

Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis Year ended December 31, 2021

	General Fund	Street Fund	Electric, Water and Sewer Funds	Other Funds	Total
TRANSFERS					
Transfers in	1,416,406	128,820	887,747	212,384	2,645,357
Transfers out	(709,018)	-	(1,926,178)	(10,161)	(2,645,357)
Total Transfers	<u>707,388</u>	<u>128,820</u>	<u>(1,038,431)</u>	<u>202,223</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS IN OVER EXPENDITURES AND TRANSFERS OUT	152,806	16,663	115,620	(23,630)	261,459
FUND BALANCE, BEGINNING OF YEAR	<u>4,075,987</u>	<u>1,161,562</u>	<u>5,204,771</u>	<u>546,207</u>	<u>10,988,527</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,228,793</u>	<u>\$ 1,178,225</u>	<u>\$ 5,320,391</u>	<u>\$ 522,577</u>	<u>\$ 11,249,986</u>

See accompanying notes to financial statements.

City of Paris

Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis General Fund – Budget to Actual Comparison Year ended December 31, 2021

	Budget	Actual	Variance with Budget Favorable (Unfavorable)
REVENUES			
Taxes and assessments	\$ 1,180,190	\$ 1,213,638	\$ 33,448
Grant income	7,000	9,450	2,450
Federal funds	-	164,465	164,465
Licenses and permits	54,490	50,010	(4,480)
Fines and fees	48,000	47,520	(480)
Investment return	30	41	11
Rent	12,300	29,160	16,860
Miscellaneous	127,607	59,483	(68,124)
Total Revenues	<u>1,429,617</u>	<u>1,573,767</u>	<u>144,150</u>
EXPENDITURES			
Operations and Maintenance			
Capital expenditures	25,287	51,476	(26,189)
Cost of operating equipment	28,100	26,306	1,794
Salaries	797,407	693,755	103,652
Departmental operating expenses	78,851	87,878	(9,027)
Other operating expenses	203,135	303,708	(100,573)
General and Administrative			
Salaries	155,896	190,239	(34,343)
Professional services	14,650	13,769	881
Insurance	336,963	317,388	19,575
Payroll taxes	76,559	65,212	11,347
Employee retirement	124,375	118,311	6,064
Miscellaneous	50,337	28,626	21,711
Debt service			
Debt payment (principal)	35,000	24,287	10,713
Other			
Grants given	39,500	43,586	(4,086)
Total Expenditures	<u>1,966,060</u>	<u>1,964,541</u>	<u>1,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS, AS BUDGETED	<u>(536,443)</u>	<u>(390,774)</u>	<u>145,669</u>

See accompanying notes to financial statements.

City of Paris

Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis General Fund – Budget to Actual Comparison Year ended December 31, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance with Budget Favorable (Unfavorable)</u>
TRANSFERS			
Transfers in	1,103,199	1,416,406	313,207
Transfers out	(824,300)	(709,018)	115,282
Total Transfers	<u>278,899</u>	<u>707,388</u>	<u>428,489</u>
 EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS IN OVER EXPENDITURES AND TRANSFERS OUT BEFORE OTHER RECONCILING ITEMS	 <u>\$ (257,544)</u>	 316,614	 <u>\$ 574,158</u>
 OTHER RECONCILING ITEMS			
Capital expenditures		51,476	
Debt payment (principal)		24,287	
Depreciation		<u>(239,571)</u>	
 EXCESS OF REVENUES AND TRANSFERS IN OVER EXPENDITURES AND TRANSFERS OUT		 <u>\$ 152,806</u>	

See accompanying notes to financial statements.

City of Paris

Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis Street Fund – Budget to Actual Comparison Year ended December 31, 2021

	Budget	Actual	Variance with Budget Favorable (Unfavorable)
REVENUES			
Taxes and assessments	\$ 330,000	\$ 333,801	\$ 3,801
Investment return	78	78	-
Miscellaneous	100	-	(100)
Total Revenues	<u>330,178</u>	<u>333,879</u>	<u>3,701</u>
EXPENDITURES			
Operations and Maintenance			
Capital expenditures	75,000	132,136	(57,136)
Cost of operating equipment	32,055	32,777	(722)
Salaries	241,376	217,117	24,259
General and Administrative			
Telephone	-	301	(301)
Professional services	5,750	5,435	315
Insurance	35,361	39,367	(4,006)
Payroll taxes	17,966	16,396	1,570
Employee retirement	26,790	26,387	403
Miscellaneous	700	396	304
Debt Service			
Interest expense	24,000	-	24,000
Total Expenditures	<u>458,998</u>	<u>470,312</u>	<u>(11,314)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE TRANSFERS, AS BUDGETED	(128,820)	(136,433)	(7,613)
TRANSFERS			
Transfers in	<u>128,820</u>	<u>128,820</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND TRANSFERS IN OVER EXPENDITURES AND TRANSFERS OUT BEFORE OTHER RECONCILING ITEMS	<u>\$ -</u>	(7,613)	<u>\$ (7,613)</u>
OTHER RECONCILING ITEMS			
Capital expenditures		132,136	
Depreciation		<u>(107,860)</u>	
EXCESS OF REVENUES AND TRANSFERS IN OVER EXPENDITURES AND TRANSFERS OUT		<u>\$ 16,663</u>	

See accompanying notes to financial statements.

City of Paris, Arkansas

Notes to Financial Statements

December 31, 2021

NOTE 1: NATURE OF ACTIVITIES

The City of Paris, Arkansas (the City) was incorporated under the laws of the State of Arkansas (the State) and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City. The criteria provided in Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* have been considered, and there are no agencies or entities which should be presented with the City.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Regulatory Accounting

The Arkansas Legislature enacted a law in 2005 that requires municipalities to present their financial statements in a prescribed format and also restricts the basis of accounting for this format to one of three methods. The entity's governing body, however, can adopt a resolution annually to adopt GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as their reporting model in lieu of reporting on this regulatory basis established by Arkansas Code 10-4-412. The City's Council did not adopt such a resolution for 2021.

The regulatory presentation is on a fund basis with no distinction being made as to the type of funds (Proprietary, Governmental, etc.) being presented. The required financial statements consist of a balance sheet (or statement of assets, liabilities, and fund balance), statement of revenues, expenditures, and changes in fund balance, and a statement of budget to actual comparison for the General Fund and the Street Fund. A schedule of fixed assets is also required to be presented. Columnar headings are required for the *General Fund*, the *Street Fund* and *All Other Funds in the Aggregate*, but additional funds (columns) may be presented separately. The basis of accounting is limited to cash basis, modified cash basis or modified accrual. The City has elected to utilize the modified cash basis of accounting. Effective January 1, 2005, the City implemented the regulatory basis of accounting for financial statement reporting purposes. These financial statements are presented in accordance with the regulatory basis of presentation as prescribed by the laws of the State. The City maintains its records on a modified cash basis of accounting. This regulatory basis of presentation and the modified cash basis of accounting differ from accounting principles generally accepted in the United States of America, and such differences are presumed to be material.

Basis of Accounting

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, fund balance, revenues, and expenditures when they result from cash transactions, with a provision for investments, inventory, fixed assets, and long-term debt (and related issue costs, discounts, and deferrals). This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result of the use of the modified cash basis of accounting, certain assets (such as accounts receivable and interfund receivables) and their related receipts and certain liabilities (such as accounts payable, accrued payroll, and interfund payables) and their related expenditures are not recorded in these financial statements.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Fund Accounting

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

The following funds are recognized in the accompanying financial statements:

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Street Fund – The Street Fund is a special revenue fund used to account for the proceeds of specific receipt sources that are designated for maintaining and constructing highways and streets.

Electric, Water and Sewer Funds – The Electric, Water and Sewer Funds are enterprise funds used to account for the receipt of funds generated by charges to citizens for utility services provided by the City and the disbursements of those funds to provide utility services to citizens, as well as assisting in financing the activities of other funds of the City.

Other Funds – Other Funds consist of all other funds of the City. The following types of funds are included in this column:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific receipt sources that are legally restricted to disbursement for specific purposes. The Hospital Sales Tax Fund, the Administration of Justice Fund, the Oakwood Cemetery Fund, and the Sanitation Fund are the special revenue funds of the City included in the other funds column.

Trust and Agency Funds – Trust and Agency Funds are fiduciary funds 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 Firemen's Pension and Relief Fund is the trust and agency fund of the City included in the other funds column.

Budgets and Budgetary Accounting

State law requires that the following procedures be followed in establishing the budgetary data reflected in the financial statements:

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

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

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or net realizable value. Inventory consists of transformers, poles, meters, piping, and other miscellaneous items used for utilities maintenance.

Fixed Assets

Fixed assets, which include infrastructure assets constructed since 2001, are reported in the City's funds.

Fixed assets are recorded at cost. Contributed property is recorded at fair value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

Building and improvements	5 - 50 years
Collection and distribution system	5 - 50 years
Infrastructure	20 - 40 years
Machinery and equipment	3 - 50 years
Recreational facilities	10 - 20 years
Trucks and mobile equipment	5 - 15 years

The City's capitalization policy states that assets with an initial value or cost greater than or equal to \$1,000 and an estimated useful life of greater than one year are capitalized. The cost basis of fully depreciated property and equipment still in use by the City at December 31, 2021 amounted to approximately \$5,167,000.

Fund Balance

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the City's policy to use restricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Fund Balance Classifications

Fund balance is classified and could be displayed in the following components:

General Fund, Street Fund, and Special Revenue Funds

Nonspendable – represents amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Committed – represents amounts that are to be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit the amounts. For the City, the highest level of decision-making authority would be the City Council.

Assigned – represents amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – represents amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

Electric, Water and Sewer Funds and Trust and Agency Funds

Invested in fixed assets, net of related debt – represents the amount of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – represents amounts with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments.

Unrestricted – represents all other amounts that do not meet the definition of "invested in fixed assets, net of related debt" or "restricted."

Donations

Donations received, if any, are recorded as revenues in the period received as assets, expenses, or decreases of liabilities, depending on the type of benefit received. Donations are measured at estimated fair market values.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the City reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Advertising

The City follows the policy of charging advertising to expense as incurred.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3: DEPOSITS IN FINANCIAL INSTITUTIONS

Deposits in financial institutions are financial instruments that could potentially subject the City to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The City maintains deposit balances in three financial institutions, and all deposit balances are carried at cost. See Note 12 for further details.

Legal or Contractual Provisions for Deposits and Investments

Governmental Fund Types

State law generally requires that municipal funds be deposited in federally insured banks located in the State. The municipal deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations, the principal and interest on which are fully guaranteed by the United States of America.

Pension Trust Fund – Firemen's Pension and Relief Fund

State law provides certain restrictions for firemen's pension trust funds. If the total assets of the fund are less than one hundred thousand dollars (\$100,000), the funds may be deposited or invested as noted in the preceding paragraph and may also include the following: deposits in federally insured savings and loans located in the State and notes secured by mortgages on real estate guaranteed either by the United States government or by a corporation approved by the State Commissioner of Insurance. Investments of other types are allowed by State law, but it has not been a common practice to utilize them. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), the fund may employ a professional investment counselor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

NOTE 4: RESTRICTED BALANCES

The City has classified certain cash and certificate of deposit balances as restricted and not available for use in its normal operations. As of December 31, 2021, the City had the following amounts as restricted balances:

Customer Deposit Fund: Cash restricted to refund customer deposits or reimburse the revenue fund when deposits are applied to bills of customers with a history of timely payment. Additions to this fund are new customer deposits received. Restricted deposits related to this fund amounted to \$68,427 at December 31, 2021.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

USDA Loan Reserve Fund: Certificate of deposit restricted for a required reserve as part of the loan requirements of the United States Department of Agriculture (USDA) for the water system improvement project. Restricted certificate of deposit related to this fund amounted to \$187,385 at December 31, 2021.

Sidewalk Construction Fund: Certificate of deposit restricted for sidewalk construction. Restricted certificate of deposit related to this fund amounted to \$6,641 at December 31, 2021.

Firemen's Pension and Relief Fund: Cash restricted to pay benefits to the participants of the retirement plan. Restricted cash related to this fund amounted to \$29,541 at December 31, 2021.

Administration of Justice Fund: Cash restricted to pay the City's portion of the District judge salary. Restricted cash and certificate of deposit related to this fund amounted to \$3,920 at December 31, 2021.

See Note 5 for restricted investments.

NOTE 5: INVESTMENTS

The Oakwood Cemetery Fund had investments with a fair market value of \$11,556 at December 31, 2021. These investments are held by CompuServe in the City's name and are subject to risk of market value decline. These investments are restricted for cemetery maintenance.

The Firemen's Pension and Relief Fund had investments with a fair market value of \$174,470 at December 31, 2021. These investments are held by Ameriprise Financial in the City's name and are subject to risk of market value decline. These investments are restricted to pay benefits to the participants of the retirement plan.

NOTE 6: CHANGES IN FIXED ASSETS

General Fund:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 953,045	\$ -	\$ -	\$ -	\$ 953,045
Building and improvements	1,583,568	-	-	-	1,583,568
Machinery and equipment	340,871	32,245	-	-	373,116
Trucks and mobile equipment	658,443	-	-	-	658,443
Infrastructure	2,123,018	239,613	-	-	2,362,631
Recreational facilities	1,230,106	-	-	-	1,230,106
	6,889,051	271,858	-	-	7,160,909
Accumulated depreciation	(3,296,760)	(239,571)	-	-	(3,536,331)
Fixed assets, net of accumulated depreciation	\$ 3,592,291	\$ 32,287	\$ -	\$ -	\$ 3,624,578

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Street Fund:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Machinery and equipment	\$ 39,614	\$ 106,766	\$ -	\$ -	\$ 146,380
Trucks and mobile equipment	249,140	25,370	-	-	274,510
Infrastructure	1,786,229	-	-	-	1,786,229
	2,074,983	132,136	-	-	2,207,119
Accumulated depreciation	(962,781)	(107,860)	-	-	(1,070,641)
Fixed assets, net of accumulated depreciation	<u>\$ 1,112,202</u>	<u>\$ 24,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,136,478</u>

Electric, Water and Sewer Funds:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 194,810	\$ 12,330	\$ -	\$ -	\$ 207,140
Building and improvements	133,759	-	-	-	133,759
Machinery and equipment	475,600	112,558	-	-	588,158
Trucks and mobile equipment	587,374	-	-	-	587,374
Infrastructure	-	2,423	-	-	2,423
Collection and distribution system	9,298,125	382,082	-	-	9,680,207
	10,689,668	509,393	-	-	11,199,061
Accumulated depreciation	(6,690,705)	(288,923)	-	-	(6,979,628)
Fixed assets, net of accumulated depreciation	<u>\$ 3,998,963</u>	<u>\$ 220,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,219,433</u>

Other Funds:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 32,490	\$ -	\$ -	\$ -	\$ 32,490
Building and improvements	83,758	-	-	-	83,758
Machinery and equipment	473	1,368	-	-	1,841
Trucks and mobile equipment	317,780	-	-	-	317,780
Collection and distribution system	215,025	-	-	-	215,025
	649,526	1,368	-	-	650,894
Accumulated depreciation	(273,790)	(35,743)	-	-	(309,533)
Fixed assets, net of accumulated depreciation	<u>\$ 375,736</u>	<u>\$ (34,375)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,361</u>

NOTE 7: LONG-TERM DEBT

Electric Fund

At December 31, 2021, the Electric Fund was indebted to The First National Bank of Paris (FNB) in the amount of \$50,187. These loans were for the purchase of 2 electric bucket trucks. The first of these loans accrues interest at 3.75% with payments of \$21,543 due annually for five years maturing in 2022. The second loan accrues interest at 4.75% with payments of \$15,652 due annually for five years maturing in 2023.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Street Fund

At December 31, 2021, the Street Fund was indebted to FNB in the amount of \$106,766. This loan was for the purchase of a case backhoe. The loan accrues interest at 3.75% with payments of \$23,815 due annually for five years maturing in 2026.

Water Fund

At December 31, 2021, the Water Fund was indebted to the USDA in the amount of \$216,511. This loan was for the development and improvement of the City's water system. The loan accrues interest at 1.75% with payments of \$12,824 due monthly for 18 months maturing in June of 2023.

Sanitation Fund

At December 31, 2021, the Sanitation Fund was indebted to FNB in the amount of \$88,165. This loan was for the purchase of a sanitation truck. The loan accrues interest at 5.00% with payments of \$32,384 due annually for five years maturing in 2024.

Following is a summary of changes in long-term debt:

	Balance January 1, 2021	Issued/ Borrowed	Retired/ Paid	Balance December 31, 2021	Amounts Due Within One Year
<u>Electric Fund</u>					
FNB - 2017 bucket truck	\$ 40,933	\$ -	\$ 19,981	\$ 20,952	\$ 20,952
FNB - 2018 bucket truck	42,817	-	13,582	29,235	14,265
	<u>\$ 83,750</u>	<u>\$ -</u>	<u>\$ 33,563</u>	<u>\$ 50,187</u>	<u>\$ 35,217</u>
<u>Water Fund</u>					
USDA	\$ -	\$ 291,360	\$ 74,849	\$ 216,511	\$ 151,309
<u>Sanitation Fund</u>					
FNB - sanitation truck	\$ 114,808	\$ -	\$ 26,643	\$ 88,165	\$ 27,975
<u>Street Fund</u>					
FNB - Case Backhoe	\$ -	\$ 106,766	\$ -	\$ 106,766	\$ 23,465

The following is a summary of debt service requirements:

Year Ending	<u>Electric Fund</u>		<u>Water Fund</u>		<u>Sanitation Fund</u>		<u>Street Fund</u>	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 35,217	\$ 2,186	\$ 151,309	\$ 2,579	\$ 27,975	\$ 4,408	\$ 23,465	\$ 350
2023	14,970	718	65,202	292	29,374	3,009	23,472	343
2024	-	-	-	-	30,816	1,541	23,468	348
2025	-	-	-	-	-	-	23,450	365
2026	-	-	-	-	-	-	12,911	359
Total	<u>\$ 50,187</u>	<u>\$ 2,904</u>	<u>\$ 216,511</u>	<u>\$ 2,871</u>	<u>\$ 88,165</u>	<u>\$ 8,958</u>	<u>\$ 106,766</u>	<u>\$ 1,765</u>

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 8: PROPERTY TAX

The City levies its property tax during the month of October, prior to the current fiscal year. The County is the collecting agent for the levy and remits the collections to the City, net of a collection fee. Taxes are delinquent after October 10th.

The amount of property taxes the City may levy is subject to a statutory limitation set by the State. The tax levy may not be increased except by amendment to the State Constitution.

The assessed value of taxable property upon which the property tax is levied is determined by the County Assessor. The Assessor estimates full market value of the property and applies the statutory rate of 20% to arrive at assessed value.

NOTE 9: HOSPITAL REVENUE FUND

During March 2000, the City passed a half-cent sales tax for the purpose of assisting in operations of the North Logan Mercy Hospital. The sales tax was effective July 1, 2000, and all proceeds are distributed to the hospital.

NOTE 10: RETIREMENT PLANS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended*, was effective for the City on January 1, 2015, and established accounting and financial reporting requirements related to pensions for governmental entities whose employees are provided with pensions through pension plans that are covered by the scope set forth in the statement.

Although the pension plans in which City employees participate meet the criteria for implementation of GASB Statement No. 68, reporting the liability and certain disclosures related to actuarial calculations for determining the total pension liability are not relevant to modified cash basis financial statements. However, required disclosures related to the description of the plans, types of benefits provided, funding policy, contribution requirements and rates, and actual cash contributions are applicable to the modified cash basis of accounting and are provided in the paragraphs that follow.

Arkansas Public Employees Retirement System

Plan Description and Funding Policy

Employees of the City that meet certain eligibility requirements participate in Arkansas Public Employees Retirement System (APERS), which is a cost-sharing multiple-employer defined benefit plan created by the Arkansas Legislature. APERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Plan participants are fully vested in benefits provided under APERS upon reaching five years of service. Benefits, which are established and amended by state statute, are calculated on the basis of age, final average salary, years of service and a benefit factor. A stand-alone financial report for APERS may be obtained by making a written request at 124 West Capitol Avenue, Suite 400, Little Rock, Arkansas 72201 or by calling 501-682-7800 or 800-682-7377.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Plan participants hired after July 1, 2005, are required to contribute 5.00% of their annual covered salary, and the City is required to contribute a percent of covered salary at rates established by the APERS Board of Trustees, based on actuarially determined rates. The employer contribution rate was 15.32% for the year ended December 31, 2021. Contribution requirements are set forth in state statute. The City's proportionate share of contributions for the employees of the City for the year ended December 31, 2021 was \$244,849, which was equal to the required contributions for the year.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City was \$576,227 at June 30, 2021 (the actuarial valuation date and measurement date).

Local Police and Fire Retirement System

Plan Description and Funding Policy

The City contributes to the Arkansas Local Police and Fire Retirement System (LOPFI), an agent multiple-employer defined benefit pension plan administered by the State. LOPFI provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The LOPFI Board of Trustees has no authority to establish and amend benefit provisions to LOPFI.

LOPFI issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, 620 West Third Street, Suite 200, Little Rock, Arkansas 72201, by calling 1-501-682-1745, or online at www.lopfi-prb.com.

Plan members are not required to contribute to the plan. The City is required to contribute at an actuarially determined rate. The current rate is \$59 monthly per active member. The required contribution is determined as part of each year's annual actuarial valuation by using the entry age actuarial cost method. The City's proportionate share of contributions for the employees of the City for the year ended December 31, 2020 was \$11,334 which was equal to the required contributions for the year.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to employees of the City was \$55,755 at December 31, 2020 (the actuarial valuation date and measurement date).

Firemen's Pension and Relief Fund

Plan Description and Funding Policy

Volunteer firemen of the City participate in the Firemen's Pension and Relief Fund (the Plan), a single-employer defined benefit pension plan. The City is the only participating employer in this plan. The Plan covers all volunteer firemen. At December 31, 2021, membership consisted of 9 retirees and beneficiaries receiving benefits. There are no terminated plan members entitled to but not yet receiving benefits.

The volunteer firemen are not paid a salary. They are reimbursed on a flat fee basis per fire call for expenses incurred in their capacity as volunteers. Covered expenses for the year ended December 31, 2021 amounted to \$15,459.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Each of the active members are required by State law to contribute to the Plan. Volunteer local plan members are required to contribute \$1 to the Plan each month. Paid local plan members are required to contribute 6% of the payments each month. The City is required to match the Plan contributions made by the volunteer firemen. For the year ended December 31, 2021, there were no active members.

Other revenues include a .4 mill tax on area real estate and a .4 mill tax on area personal property. Plan member contributions are recognized in the period in which the contributions are received. Employer contributions are recognized when received. Benefits and refunds are recognized when paid in accordance with the Plan.

Assets of the Plan consist of cash, certificates of deposit, and investments and are valued at market value.

Net Pension Liability

The City's proportionate share of the total collective net pension liability attributable to Plan participants was \$43,004 at December 31, 2020 (the actuarial valuation date and measurement date).

NOTE 11: EMPLOYEE BENEFIT PLANS

The City offers all active full-time employees and elected City officials who receive a W-2 form the option to participate in a flexible benefit plan administered by the Mayor and City Clerk. The flexible benefit plan has been established as a cafeteria plan as permitted under Section 125 of the Internal Revenue Code (IRC) of 1954, as amended, to provide for group medical/dental assistance for its eligible employees and dependents. The plan is funded solely by salary redirections as elected on a voluntary basis by participants.

The City enacted an IRC Section 457 deferred compensation plan as of January 1, 2000 for all interested employees. Each employee may contribute amounts up to the maximum allowed under the IRC. Other than incidental expenses of collecting and disbursing the employees' deferrals and other minor administrative matters, there are no costs to the City for the deferred compensation plan.

NOTE 12: CONCENTRATIONS AND RISK OF ACCOUNTING LOSS

Deposits in financial institutions are financial instruments that could potentially subject the City to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. All deposits are carried at cost. The amounts of deposits are separately displayed on the Statement of Assets, Liabilities, and Fund Balance – Modified Cash Basis at December 31, 2021 as "Cash", "Certificates of deposit" and "Investments – Restricted." "Cash" includes petty cash of \$125.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

	Carrying Amount	Bank Amount
Insured (FDIC)	\$ 250,000	\$ 250,000
Insured (SIPC)	210,008	210,008
Uninsured		
Collateralized	1,790,394	2,124,997
Uncollateralized	-	-
	<u>\$ 2,250,402</u>	<u>\$ 2,585,005</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy is to attempt to match investment maturities with cash flow requirements. The City's investments generally are certificates of deposit with maturities primarily one year or less.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to minimize credit risk losses due to default of security issuers or backers by limiting investments to the safest types of securities.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Financial instruments that potentially subject the City to credit risk consist primarily of accounts receivable. (Accounts receivable are not presented in the financial statements due to the use of the modified cash basis of accounting.) The City provides water, electric, sewer, and sanitation services primarily to customers within the Paris area. During the year ended December 31, 2021, the City sold water to the City of Scranton totaling approximately \$256,000, which amounted to approximately 25% of total water sales. During the year ended December 31, 2021, the City also sold water to the Central Logan County Water Association totaling approximately \$157,000, which amounted to approximately 15% of total water sales.

The City purchases electricity from three vendors. During the year ended December 31, 2021, the City purchased electricity from Oklahoma Municipal Electric Systems totaling approximately \$1,358,000, which amounted to approximately 55% of total electricity purchases. The City also purchased electricity from Southwestern Power Administration totaling approximately \$1,001,000, which amounts to approximately 40% of total electricity purchases.

See Note 5 for risks related to investments.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds that provide electric, water and sewer services. Segment information is as follows:

	Electric Fund	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Revenues	\$ 3,573,669	\$ 1,356,190	\$ 300,734	\$ 5,230,593
Nonoperating Revenues	45,123	1,677	18	46,818
Expenditures	2,964,360	835,846	323,154	4,123,360
Excess (Deficiency) of Revenues Over Expenditures Before Transfers	654,432	522,021	(22,402)	1,154,051
Transfers:				
In	-	887,747	-	887,747
Out	(1,174,401)	(751,777)	-	(1,926,178)
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	(519,969)	657,991	(22,402)	115,620
Fixed Assets:				
Additions	10,588	407,935	90,870	509,393
Depreciation	55,600	132,428	100,895	288,923
Working Capital	631,652	540,136	9,342	1,181,130
Total Assets	1,332,352	3,295,336	1,046,922	5,674,610
Total Liabilities	137,708	216,511	-	354,219
Long-Term Debt:				
FNB - 2017 bucket truck	20,952	-	-	20,952
FNB - 2018 bucket truck	29,235	-	-	29,235
USDA	-	216,511	-	216,511
Total Fund Balance	1,194,644	3,078,825	1,046,922	5,320,391

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

NOTE 14: RISK MANAGEMENT

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

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

Workers' Compensation - This program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for the municipalities participating in this program are revised annually based on the cost experience of the particular municipality or group as determined by the Workers' Compensation Commission.

Municipal Legal Defense Program - The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages - no punitive damages) imposed on municipal offices and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials and employees because of judgment or settlement in any one lawsuit for more than 25 percent of the program's available funds at the time the lawsuit was filed or the judgment becomes final, or \$1 million, whichever is less. The City agrees to pay into the program each year a charge established by the steering committee. Each City also agrees to pay the first \$3,000 of the aggregated cost for all expenses on each lawsuit. The cost deposit is not refundable.

Municipal Property Program - This program covers insurable real and personal property, exclusive of motor vehicles, mobile equipment and water vessels, which belong to or are in the care, custody or control of a participating municipality. Property is valued at the full cost to repair or replace the property after deduction of the depreciation or as agreed to by the participating municipality and program. Loss amounts payable will be reduced by the deductible amount of \$10,000 for class 1 rates, \$7,500 for class 2 rates, and \$5,000 for class 3 and 4 rates. The municipality agrees to pay into the program each year a service charge established annually by the program administrator for property for which the municipality desires coverage.

Municipal Vehicle Program

Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident, and \$25,000 for property damage per accident. The City shall pay into the program each year a charge established annually by the program administrator for covered municipal vehicles and mobile equipment owned or leased by the City.

City of Paris, Arkansas

Notes to Financial Statements December 31, 2021

Physical Damage - This program covers vehicles and permanently attached equipment which are the property of the participating municipality. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$1,000 per occurrence. The City agrees to pay into the program each year a service charge established annually by the program administrator for the covered property.

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

NOTE 15: CONTINGENCIES AND COMMITMENTS

The City was the recipient of various federal and state grants. These grant programs are subject to audit by the federal or state government or their representatives. Accordingly, the amount, if any, of expenditures which may be disallowed by the program representatives cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 16: LITIGATION

The City is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the assets, liabilities, fund balances, revenues, and expenditures of the City.

NOTE 17: SUBSEQUENT EVENTS

Subsequent to year-end, the Board of Trustees for the Firemen's Pension and Relief Fund made a decision to transfer the assets of the pension plan over to LOPFI so that they can take over the administration of the pension plan for the volunteer firemen.

Management has evaluated subsequent events through November 3, 2022, the date that the combined financial statements were available to be issued.

**Required
Supplementary Information**

City of Paris, Arkansas

Required Supplementary Information Schedule of Fixed Assets Year ended December 31, 2021

General Fund:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 953,045	\$ -	\$ -	\$ -	\$ 953,045
Building and improvements	1,583,568	-	-	-	1,583,568
Machinery and equipment	340,871	32,245	-	-	373,116
Trucks and mobile equipment	658,443	-	-	-	658,443
Infrastructure	2,123,018	239,613	-	-	2,362,631
Recreational facilities	1,230,106	-	-	-	1,230,106
	6,889,051	271,858	-	-	7,160,909
Accumulated depreciation	(3,296,760)	(239,571)	-	-	(3,536,331)
Fixed assets, net of accumulated depreciation	<u>\$ 3,592,291</u>	<u>\$ 32,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,624,578</u>

Street Fund:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Machinery and equipment	\$ 39,614	\$ 106,766	\$ -	\$ -	\$ 146,380
Trucks and mobile equipment	249,140	25,370	-	-	274,510
Infrastructure	1,786,229	-	-	-	1,786,229
	2,074,983	132,136	-	-	2,207,119
Accumulated depreciation	(962,781)	(107,860)	-	-	(1,070,641)
Fixed assets, net of accumulated depreciation	<u>\$ 1,112,202</u>	<u>\$ 24,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,136,478</u>

Electric, Water and Sewer Funds:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 194,810	\$ 12,330	\$ -	\$ -	\$ 207,140
Building and improvements	133,759	-	-	-	133,759
Machinery and equipment	475,600	112,558	-	-	588,158
Trucks and mobile equipment	587,374	-	-	-	587,374
Infrastructure	-	2,423	-	-	2,423
Collection and distribution system	9,298,125	382,082	-	-	9,680,207
	10,689,668	509,393	-	-	11,199,061
Accumulated depreciation	(6,690,705)	(288,923)	-	-	(6,979,628)
Fixed assets, net of accumulated depreciation	<u>\$ 3,998,963</u>	<u>\$ 220,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,219,433</u>

See Independent Auditor's Report

City of Paris, Arkansas

Required Supplementary Information Schedule of Fixed Assets Year ended December 31, 2021

Other Funds:

	Balance January 1, 2021	Additions	Deletions	Transfers	Balance December 31, 2021
Land	\$ 32,490	\$ -	\$ -	\$ -	\$ 32,490
Building and improvements	83,758	-	-	-	83,758
Machinery and equipment	473	1,368	-	-	1,841
Trucks and mobile equipment	317,780	-	-	-	317,780
Collection and distribution system	215,025	-	-	-	215,025
	649,526	1,368	-	-	650,894
Accumulated depreciation	(273,790)	(35,743)	-	-	(309,533)
Fixed assets, net of accumulated depreciation	<u>\$ 375,736</u>	<u>\$ (34,375)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 341,361</u>

See Independent Auditor's Report

Supplementary Information

City of Paris, Arkansas

Schedule of Expenditures of Federal Awards Year ended December 31, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Revenues	Expenditures
<u>Federal Awards</u>			
U.S. Department of Transportation			
Direct Program			
Federal Aviation Administration Airport Improvement Program	20.106	\$ 164,465	\$ 182,810
U.S. Department of Treasury			
Pass through State of Arkansas Department of Finance and Administration			
Coronavirus State and Local Fiscal Recovery Funds	21.027	348,584	447,125
U.S. Department of Agriculture			
Direct Loan Program			
Water and Sewer Disposal Systems for Rural Communities	10.760	291,360	291,360
Total Expenditures of Federal Awards		<u>\$ 804,409</u>	<u>\$ 921,295</u>

City of Paris, Arkansas

Schedule of Findings and Questioned Costs Year ended December 31, 2021

Scope of Audit Pursuant to the Uniform Guidance

All federal financial award programs of the City of Paris, Arkansas (the City) are included in the scope of the Uniform Guidance audit. For purposes of this schedule, federal awards include those received from other agencies, the original source of which was a federal agency.

Summary of Significant Accounting Policies

The City's grant funds are accounted for on the modified cash basis of accounting. Under the modified cash basis, grant revenues are recognized when received and expenditures are recorded when paid. These grant funds are included in the "Federal funds" line of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Modified Cash Basis. The City is the recipient of federal grant awards. The grant programs are administered by various departments within the City. The activities of these departments are monitored by City staff to ensure compliance with the requirements of grants.

Relationship to Federal Financial Reports

Grant expenditures reports as of December 31, 2021, which have been submitted to grantor agencies will, in some cases, differ slightly from amounts disclosed herein. The reports prepared for grantor agencies are typically prepared at a later date and often reflect refined estimates of the year-end accruals. The reports will agree at termination of the grant as the discrepancies noted are timing differences.

10% De Minimis Indirect Cost Rate

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Loan Program

During the year ended December 31, 2021, the water department issued a revenue bond in the amount of \$4,422,000 which was purchased through a loan program by the United States Department of Agriculture. For the year ended December 31, 2021, total advances on the revenue bond under the loan program were \$291,360. This loan was for the development and improvement of the City's water system. At December 31, 2021, the balance on this loan was \$216,511.



INDEPENDENT AUDITOR'S OPINION ON CITY'S COMPLIANCE WITH STATE LAWS

Honorable Mayor and City Council
City of Paris, Arkansas

We have examined management's assertions that the **City of Paris, Arkansas** complied with the requirements of Arkansas Act 15 of 1985 and the following Arkansas statutes during the year ended December 31, 2021.

- Municipal Accounting Law, §14-59-101 et seq.;
- District Courts and City Courts, §16-10-201 et seq.;
- Improvement Contracts, §§22-9-202 – 22-9-204;
- Budgets, Purchases, and Payments of Claims, Etc., §14-58-201 et seq. and 14-58-301 et seq.;
- Investment of Public Funds, §19-1-501 et seq.;
- Deposit of Public Funds, §§19-8-101 – 19-8-107.

Management is responsible for the City's compliance with these requirements. Our responsibility is to express an opinion on the City's compliance based upon our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City of Paris, Arkansas complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2021.

These conditions were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2021 financial statements, and this report does not affect our report dated November 3, 2022 on those financial statements.

This report is intended solely for the information and use of management, the City Council, the Mayor, Arkansas Division of Legislative Audit, and applicable bonding agencies and funding sources and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
November 3, 2022



**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***

Honorable Mayor and City Council
City of Paris, Arkansas

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 financial statements of the **City of Paris, Arkansas** (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 3, 2022. We issued an adverse opinion because the City prepared the financial statements using accounting practices prescribed or permitted by the State of Arkansas, which practices differ from accounting principles generally accepted in the United State of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the assets, liabilities, and fund balances of the funds as presented by the City as of December 31, 2021, and their respective revenues, expenditures and changes in fund balance and budgetary comparisons for the year then ended, in accordance with the basis of accounting described in Note 2.

Internal Control over Financial Reporting

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

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 were not identified. However, as described in the accompanying schedule of findings and questioned costs as item 2021-001, we did identify a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As described above, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 "Landmark PLC". The signature is written in a cursive, flowing style.

Fort Smith, Arkansas
November 3, 2022



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Honorable Mayor and City Council
City of Paris, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Paris, Arkansas' (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year December 31, 2021. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material

Honorable Mayor and City Council
City of Paris, Arkansas

weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive style, and "PLC" is written in a more formal, blocky style.

Fort Smith, Arkansas
November 3, 2022

City of Paris, Arkansas

Schedule of Findings and Questioned Costs Year ended December 31, 2021

I. SUMMARY OF INDEPENDENT AUDITOR'S FINDINGS

1. The opinion expressed in the independent auditor's report on accounting principles generally accepted in the United States of America:

☐ Unmodified ☐ Qualified ☒ Adverse ☐ Disclaimer

The opinion expressed in the independent auditor's report on the basis of accounting prescribed or permitted by the State of Arkansas:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☒ Yes ☐ No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program disclosed:

Significant deficiency(ies)? ☐ Yes ☒ None reported
Material weakness(es)? ☐ Yes ☒ No

5. The opinions expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on each major federal awards program were:

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by the Uniform Guidance?

☐ Yes ☒ No

7. The City's major program was:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
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Coronavirus State and Local Fiscal Recovery Funds	21.027
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8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. The City qualified as a low-risk auditee as that term is defined in the Uniform Guidance?

☐ Yes ☒ No

The year ended December 31, 2021 was the first year the City was required to have an audit conducted under the Uniform Guidance Standards. Under those standards, the City cannot qualify as a low-risk auditee for this first year.

I. FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

2021-001: Lack of Segregation of Duties

Condition: During the year ended December 31, 2021, we noted that there was a lack of segregation of duties in some areas, including the review of journal entries.

Criteria and Cause: A good system of internal accounting control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute and record the same transaction. Due to having a limited number of employees to handle all accounting functions, many duties and functions performed are contrary to ideal control procedures.

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and may not be detected in a timely manner.

Recommendation: We recommend a high level review of journal entries be performed by either the Mayor or the City Clerk position on a monthly basis, including review of supporting documentation and explanation as applicable. The process should also include assurance that the complete population of journal entries is included in the review procedure.

Views of Responsible Officials and Planned Corrective Action:

The City will make every effort to implement the recommended procedures in order to segregate duties and further strengthen internal controls.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters are reportable.

City of Paris, Arkansas

Summary Schedule of Prior Year Audit Findings Year ended December 31, 2021

IV. PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year audit findings for the year ended December 31, 2020 and an audit in accordance with Uniform Guidance was not required for the year ended December 31, 2020.