# City of Pine Bluff, Arkansas

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

**December 31, 2004**

LEGISLATIVE JOINT AUDITING COMMITTEE

CITY OF PINE BLUFF, ARKANSAS
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FINANCIAL STATEMENTS



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Arkansas

Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the general fund, street fund, and other funds in the aggregate of the City of Pine Bluff, Arkansas, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1(C), the City prepares its financial statements using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As described in Note 1(B), the City has adopted a new financial reporting model, which is a regulatory basis of fund presentation, as prescribed by Arkansas Code Annotated §10-4-202. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Pine Bluff, Arkansas, as of December 31, 2004, or the changes in financial position or cash flows, where applicable, thereof for the year then ended. Further, the City has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The Wastewater Utility Commission, Civic Auditorium Complex Commission, Advertising and Tourist Promotion Commission, Aviation Commission, and Arts and Science Center for Southeast Arkansas Commission Funds have not been included in the City's financial statements. The regulatory basis of fund presentation as prescribed by Arkansas Code Annotated §10-4-202, as applied to the City's modified cash basis of accounting, requires these funds to be presented as part of the other funds presented in the aggregate, thus increasing the column's assets, liabilities, receipts, and disbursements. The amount by which this departure would affect the assets, liabilities, receipts, and disbursements of the column is not reasonably determinable. The City's financial statements also do not disclose all the required information concerning deposits and investments, which should be included in order to conform with the basis of accounting described in Note 1(C).

In our opinion, because of the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective modified cash basis financial position of the other funds in the aggregate of the City of Pine Bluff, Arkansas, as of December 31, 2004, and the respective changes in the modified cash basis financial position for the basis of accounting as described in Note 1(C).

In addition, except for the effects of not disclosing all required information concerning deposits and investments, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the general fund and street funds of the City of Pine Bluff, Arkansas, as of December 31, 2004, and the respective changes in the modified cash basis financial position, and the budgetary results for the general and street funds for the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the City of Pine Bluff, Arkansas. The supplementary information in the Schedule of Capital Assets listed in the table of contents as Schedule 1 is required by the regulatory basis of presentation and is presented for the purpose of additional analysis. We have not applied auditing procedures to this information and, accordingly, express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
August 15, 2005
LOM107604

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

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

We have audited the financial statements of the City of Pine Bluff, Arkansas, as of and for the year ended December 31, 2004 and have issued our report thereon dated August 15, 2005. In our report, our opinion on the other funds in the aggregate was adverse because of the effects on the financial statements of not including the Wastewater Utility Commission, Civic Auditorium Complex Commission, Advertising and Tourist Promotion Commission, Aviation Commission, and Arts and Science Center for Southeast Arkansas Commission Funds, which are material to other funds in the aggregate. Our opinions on the general fund and street fund were qualified because required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

A. Governmental Auditing Standards

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

B. State Laws

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

Internal Control Over Financial Reporting

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

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

All city officials, as specified in the Other Management Issues section of this report, had inadequate control over receipting, depositing, disbursing, and recording cash transactions because of insufficient segregation of duties. Inadequate segregation of duties could result in a misappropriation of assets, which could have a material effect on the financial statements.

All city officials, as specified in the Other Management Issues section of this report, responded and indicated that their offices will segregate the duties of receipting, depositing, disbursing, and recording cash transactions to the extent possible with the current staffing levels.

Other Management Issues

The following issues are not reportable conditions, but are issues that are presented to assist in the efficient operation of the City.

The commentary contained in this section relates to the following officials that held office during 2004:

Mayor: Dutch King
Finance Director: Ed Bogy
Treasurer: Greg Gustek
City Clerk: Katy Hagan
District Court Clerk (Division 1): Debbie Drake
District Court Clerk (Division 2): Veronica Young
Police Chief: Daniel Moses

Our audit procedures indicated that the offices of **Finance Director, City Clerk** and **Treasurer** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices were noted in the offices of **Mayor, District Court (Division 1), District Court (Division 2)** and **Police Chief** and are reported below:

The ending balances in the **District Courts'** (Divisions 1 and 2) bank accounts, $190,031 and $69,231, respectively, again were not identified with receipts issued for cases not yet adjudicated. Failure to identify these receipts precludes the ability to properly disburse the funds after the cases have been processed through court.

The **District Courts** (Divisions 1 and 2) did not issue receipts for all items of revenue and did not properly maintain cash receipt and disbursement journals.

The **District Courts** (Divisions 1 and 2) contracted with private companies to provide probation and home detention monitoring services for individuals ordered on probation and home detention through the courts. These companies again collected and retained fees from the offenders in apparent violation of Arkansas Code. The responsibilities for the collection of fines and fees assessed in District Court are outlined in Ark. Code Ann. 16-13-709.

The Transit Department which reports to the **Mayor’s Office** did not reconcile passenger logs with bus fares collected. This reconciliation is necessary to ensure that all bus fares are being collected and deposited.

Former **Mayor** Dutch King, instructed the Street Department to credit a retired employee of the City with 60 days of vacation leave and 47 days of sick leave when she was rehired as an employee of the Street Department. The City's leave records did not indicate that this individual had this much unused leave time when she retired. According to Attorney General's Opinion No. 2005-052 issued May 18, 2005, a mayor does not have the authority to grant additional leave time to an employee without the City Council's approval. Street Department records indicate that 168.5 hours of this unauthorized leave time was used between January and June 2005 when the use of this leave time was discontinued. We recommend that the City Attorney review this matter and determine if any funds should be reimbursed to the City.

The City's personnel policy requires that documentation to support travel advances be filed with the City Clerk within ten (10) working days of return from trip. We examined **Police Department** travel expenditures for the period August through December 2004 and discovered undocumented travel advances totaling $6,525.65. We recommend the City examine Police Department travel advances for the remainder of 2004 and January 2005 through current and recover any undocumented funds. Documentation of this examination and the recovery of any funds should be retained for future audit purposes.

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

DIVISION OF LEGISLATIVE AUDIT

David J. Kraft

David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 15, 2005

CITY OF PINE BLUFF, ARKANSAS
COMBINED BALANCE SHEET - REGULATORY PRESENTATION - MODIFIED CASH BASIS
DECEMBER 31, 2004

| | General | Street | Other Funds In The Aggregate |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 1,772,225 | $ 598,359 | $ 15,440,688 |
| Investments | | | 48,835,908 |
| TOTAL ASSETS | $ 1,772,225 | $ 598,359 | $ 64,276,596 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| Settlements pending | $ 247,847 | | $ 273,244 |
| Fund Balances: | | | |
| Reserved | 139,800 | $ 598,359 | 64,003,352 |
| Unreserved: | | | |
| Designated | 279,293 | | |
| Undesignated | 1,105,285 | | |
| Total Fund Balances | 1,524,378 | 598,359 | 64,003,352 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 1,772,225 | $ 598,359 | $ 64,276,596 |

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

Exhibit B

# CITY OF PINE BLUFF, ARKANSAS
## COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - REGULATORY PRESENTATION - MODIFIED CASH BASIS
## FOR THE YEAR ENDED DECEMBER 31, 2004

| | General | Street | Other Funds In The Aggregate |
|---|---|---|---|
| RECEIPTS | | | |
| State aid | $ 1,217,631 | $ 2,879,414 | |
| Federal aid | 833,538 | | $ 995,439 |
| Property taxes | 2,333,872 | 518,482 | |
| Franchise taxes | 2,265,748 | | |
| Sales taxes | 12,577,765 | | |
| Fines, forfeitures and costs | 843,196 | | 84,207 |
| Interest and dividends | 18,466 | 5,965 | 4,356,073 |
| Local permits and fees | 1,146,681 | | |
| Sanitation fees | 2,141,533 | | |
| Transit fees | 30,892 | | |
| Parks and recreation fees | | | 256,592 |
| Health insurance premiums | | | 2,693,576 |
| Other | 92,867 | 149,041 | 2,946,342 |
| TOTAL RECEIPTS | 23,502,189 | 3,552,902 | 11,332,229 |
| DISBURSEMENTS | | | |
| Current: | | | |
| General government | 3,547,592 | | 3,101,897 |
| Law enforcement | 9,629,436 | | 2,422,089 |
| Highways and streets | 840,852 | 3,592,711 | |
| Public safety | 5,096,626 | | 1,736,226 |
| Sanitation | 2,329,502 | | |
| Health | 60,060 | | |
| Recreation and culture | 617,166 | | 1,032,917 |
| Social services | 95,157 | | |
| Transit | 913,299 | | |
| Community development | | | 1,252,861 |
| TOTAL DISBURSEMENTS | 23,129,690 | 3,592,711 | 9,545,990 |
| EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS | 372,499 | (39,809) | 1,786,239 |

CITY OF PINE BLUFF, ARKANSAS
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
REGULATORY PRESENTATION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit B

| | General | Street | Other Funds In The Aggregate |
|---|---|---|---|
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | | | $ 989,980 |
| Transfers out | $ (989,980) | | |
| TOTAL OTHER FINANCING SOURCES (USES) | (989,980) | | 989,980 |
| EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES | (617,481) | $ (39,809) | 2,776,219 |
| FUND BALANCES - JANUARY 1 | 2,141,859 | 638,168 | 61,227,133 |
| FUND BALANCES - DECEMBER 31 | $ 1,524,378 | $ 598,359 | $ 64,003,352 |

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

CITY OF PINE BLUFF, ARKANSAS

Exhibit C

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

| | General | | | Street | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| RECEIPTS | | | | | | |
| State aid | $ 1,226,672 | $ 1,217,631 | $ (9,041) | $ 2,520,000 | $ 2,879,414 | $ 359,414 |
| Federal aid | 527,886 | 833,538 | 305,652 | | | |
| Property taxes | 1,700,000 | 2,333,872 | 633,872 | 506,000 | 518,482 | 12,482 |
| Franchise taxes | 2,265,200 | 2,265,748 | 548 | | | |
| Sales taxes | 12,501,341 | 12,577,765 | 76,424 | | | |
| Fines, forfeitures and costs | 791,362 | 843,196 | 51,834 | | | |
| Interest and dividends | 10,600 | 18,466 | 7,866 | 8,000 | 5,965 | (2,035) |
| Local permits and fees | 1,165,400 | 1,146,681 | (18,719) | | | |
| Sanitation fees | 2,360,200 | 2,141,533 | (218,667) | | | |
| Transit fees | 23,000 | 30,892 | 7,892 | | | |
| Other | 14,100 | 92,867 | 78,767 | 136,000 | 149,041 | 13,041 |
| TOTAL RECEIPTS | 22,585,761 | 23,502,189 | 916,428 | 3,170,000 | 3,552,902 | 382,902 |
| DISBURSEMENTS | | | | | | |
| Current: | | | | | | |
| General government | 3,827,560 | 3,547,592 | 279,968 | | | |
| Law enforcement | 9,763,037 | 9,629,436 | 133,601 | | | |
| Highways and streets | 840,852 | 840,852 | | 3,950,000 | 3,592,711 | 357,289 |
| Public safety | 4,989,691 | 5,096,626 | (106,935) | | | |
| Sanitation | 2,354,284 | 2,329,502 | 24,782 | | | |
| Health | 60,000 | 60,060 | (60) | | | |
| Recreation and culture | 64,226 | 617,166 | (552,940) | | | |
| Social services | 17,502 | 95,157 | (77,655) | | | |
| Transit | 1,089,568 | 913,299 | 176,269 | | | |
| TOTAL DISBURSEMENTS | 23,006,720 | 23,129,690 | (122,970) | 3,950,000 | 3,592,711 | 357,289 |
| EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS | (420,959) | 372,499 | 793,458 | (780,000) | (39,809) | 740,191 |

Exhibit C

CITY OF PINE BLUFF, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

| | General | | | Street | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers out | $ (815,000) | $ (989,980) | $ (174,980) | | | |
| EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES | (1,235,959) | (617,481) | 618,478 | $ (780,000) | $ (39,809) | $ 740,191 |
| FUND BALANCES - JANUARY 1 | 2,141,859 | 2,141,859 | | 638,168 | 638,168 | |
| FUND BALANCES - DECEMBER 31 | $ 905,900 | $ 1,524,378 | $ 618,478 | $ (141,832) | $ 598,359 | $ 740,191 |

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

**NOTE 1: Summary of Significant Accounting Policies**

As discussed further in Note 1(B), these financial statements are presented in accordance with the regulatory basis of presentation as prescribed by Arkansas state law. The City maintains its records on a modified cash basis of accounting, as discussed in Note 1(C). This regulatory basis of presentation and modified basis of accounting differ from accounting principles generally accepted in the United States of America.

**A. Financial Reporting Entity**

The City of Pine Bluff 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. The following funds of the City are not presented in this report: Wastewater Utility Commission, Civic Auditorium Complex Commission, Advertising and Tourist Promotion Commission, Aviation Commission, and Arts and Science Center for Southeast Arkansas Commission.

**B. Basis of Presentation – Regulatory Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with 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. Arkansas Code Annotated §10-4-202 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 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 supplemental schedule of capital assets.

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

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund heading as it appears in the financial statements includes the following bank accounts: General Fund, Transit Fund, SID Loan Fund, VIN Fund, Capital Projects Fund, and Public Safety Facility Building Fund.

Street Fund – The Street Fund is used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for maintaining and constructing highways and streets.

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

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for specific purposes. The following special revenue funds are reported with other funds in the aggregate: CDBG Fund, Health Insurance Fund, LLEBG Fund, Parks and Recreation Fund, and Administration of Justice Fund.

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation – Regulatory Fund Accounting (Continued)**

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and other funds. The following trust and agency funds are reported with other funds in the aggregate: City Retirement Fund, Municipal Judge's and Clerk's Retirement Fund, Firemen's Pension Fund, Policemen's Pension Fund, Cemetery Trust Fund, Payroll Fund, City Collector's Fund, District Court (Division 1), and District Court (Division 2).

**C. Basis of Accounting**

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, fund balance, receipts, and disbursements when they result from cash transactions with a provision for investments and settlements pending. The 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 this modified cash basis of accounting, certain assets (such as accounts receivable, interfund receivables, and capital assets) and their related receipts and certain liabilities (such as accounts payable, interfund payables, and long-term debt) and their related disbursements are not recorded in these financial statements.

**D. Assets, Liabilities, and Fund Balances**

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, treasury bills, and short-term investments with an original maturity of three months or less.

Investments

Investments are reported at cost.

Liabilities

For the purpose of financial reporting, liabilities include settlements pending. Settlements pending are considered fines, forfeitures, costs, property taxes, federal funds, and interest that have not been transferred to the appropriate entities.

Equity Classification

Fund Balance -

1. Reserved Fund Balance indicates that portion of fund balance which has been legally segregated for specific purposes.

2. Designated Fund Balance indicates that portion of fund balance for which the entity has made tentative plans.

3. Undesignated Fund Balance indicates that portion of fund balance which is available for budgeting in future periods.

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**E. Property Taxes**

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

**F. Budget Law**

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

a. Prior to December 1, the Mayor submits to the City Council a proposed operating budget for the General and Special Revenue Funds for the calendar year commencing the following January 1. The operating budget includes proposed disbursements 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 each year.

e. Under certain conditions, the budget may be amended subsequent to the 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.

Basis of Accounting

The City prepared an annual budget on the modified cash basis for the General Fund, Street Fund and the other Special Revenue Funds except for the Health Insurance, LLEBG, and Administration of Justice Funds.

**NOTE 2: Cash and Investments**

Custodial credit risk information for deposits and investments relating to whether deposits are insured or secured with collateral and whether investments are insured or registered has not been provided.

**NOTE 3: Legal or Contractual Provisions for Deposits and Investments**

**A. Governmental Fund Types**

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

**B. Pension Trust Funds**

(1) Policemen's Pension

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

**NOTE 3: Legal or Contractual Provisions for Deposits and Investments (Continued)**

**B. Pension Trust Funds (Continued)**

(2) Firemen's Pension

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

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

The funds may be deposited or invested as noted in Note 3(A) and may include deposits in federally insured savings and loans located in the State of Arkansas and notes secured by mortgages on real estate guaranteed either by the United States government or by a corporation approved by the State Commissioner of Insurance. Investments of other types are allowed by state law, but it has not been a common practice to utilize them.

(4) Municipal Judge's and Clerk's Retirement

Municipal Judge's and Clerk's Retirement funds are allowed the same type of deposits and investments as listed in 3(A) above. Additionally, they may purchase interest-bearing securities in the State of Arkansas, or certificates of the United States, or any or all of such securities. They may also deposit in federally insured savings and loans located in the State of Arkansas. If the total assets of the fund exceed one hundred thousand dollars ($100,000), assets may be invested subject to the prudent investor rule.

**NOTE 4: Public Fund Investments**

A summary of investments by fund types is as follows:

| | December 31, 2004 | |
|---|---|---|
| Fund Type | Reported Amount | Fair Value |
| Fiduciary | $ 48,835,908 | $ 54,017,145 |

These investments are composed of the following:

| | December 31, 2004 | |
|---|---|---|
| | Reported Amount | Fair Value |
| U.S. government obligations | $ 9,739,105 | $ 9,993,690 |
| Domestic corporate bonds | 15,730,308 | 16,244,369 |
| Common and foreign stocks | 18,599,523 | 22,817,081 |
| Mortgages | 3,366,294 | 3,370,562 |
| Mutual funds | 1,400,678 | 1,591,443 |
| Totals | $ 48,835,908 | $ 54,017,145 |

**NOTE 5: Legal Debt Limit - Tax Secured Bond Issues**

The City is subject to a constitutional limitation for bonded indebtedness equal to twenty percent (20%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2004, the legal debt limit for the City was $67,706,832. There were no property tax secured bond issues.

**NOTE 6: Federal Funds Program Compliance**

The federal grants of the City have not yet received a compliance audit in accordance with Federal Program requirements and therefore, any instances of noncompliance with Federal Grant requirements have not been determined.

**NOTE 7: Reserved Fund Balance**

Reserved fund balance consists of the following:

| | December 31, 2004 |
|---|---|
| General: | |
| SID Bonds | $ 139,800 |
| Street | 598,359 |
| Other Aggregate: | |
| Community Development Block Grant | 225,867 |
| Health Insurance | 299,112 |
| Local Law Enforcement Block Grant | 167 |
| Parks and Recreation | 47,963 |
| Administration of Justice | 461,277 |
| Employee pension benefits | 62,595,503 |
| Cemetery perpetual care | 373,463 |
| Total | $ 64,741,511 |

**NOTE 8: Designated Fund Balance**

Designated fund balance consists of the following:

| | December 31, 2004 |
|---|---|
| Transit | $ 53,767 |
| Sewer Improvement District Loans | 32,986 |
| VIN (Vice Intelligence Narcotics) | 7,279 |
| Capital Projects | 181,025 |
| Public Safety Building | 4,236 |
| Total | $ 279,293 |

**NOTE 9: Commitments**

Total commitments consist of the following at December 31, 2004:

| | | December 31, 2004 |
|---|---|---|
| Long-Term Debt | $ | 3,206,872 |

Long-Term Debt

Long-Term Debt at December 31, 2004 is comprised of the following:

| | | December 31, 2004 |
|---|---|---|
| Lease-purchase agreement with Saulsbury Hill Financial for the purpose of replacement and refurbishment of the heating and cooling systems of the Civic Center Complex and and associated conservation measures, quarterly installments of $41,521.78 for 60 months. Payments are to be made from the General Fund. | $ | 1,611,352 |
| Lease-purchase agreement with First Security Leasing for the purpose of replacement and refurbishment of the heating and cooling systems of the Convention Center and associated energy conservation measures, quarterly installments of $40,031.34 for 63 months. Payments are to be made from the Advertising and Commission Fund. | | 1,595,520 |
| TOTAL LONG-TERM DEBT | $ | 3,206,872 |

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

Compensated Absences

Compensated absences do vest or accumulate. The amount of compensated absences was not determined.

Debt Service Requirements to Maturity

The City is obligated for the following amounts:

| December 31, | | Leases |
|---|---|---|
| 2005 | $ | 350,212 |
| 2006 | | 350,212 |
| 2007 | | 350,212 |
| 2008 | | 350,212 |
| 2009 | | 350,212 |
| 2010 through 2014 | | 1,751,062 |
| 2015 through 2019 | | 1,013,185 |
| Total Obligations | | 4,515,307 |
| Less Interest | | 1,308,435 |
| Total Principal | $ | 3,206,872 |

**NOTE 10: Revenue Bond Issues**

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

| Corporation | Ordinance Authorizing Issuance | Year of Issuance | Original Amount of Bonds Issued | Bonds Outstanding as of December 31, 2004 |
|---|---|---|---|---|
| International Paper Co. | Various | Various | $ 19,910,000 | $ 17,590,000 |
| Weyerhaeuser Co. | Various | 1977 | 1,500,000 | 1,000,000 |
| Rolling Pin, Inc. | 5733 | 1998 | 9,000,000 | 2,080,000 |
| Central Maloney, Inc. | 5552 | 1993 | 3,000,000 | 3,000,000 |
| Totals | | | $ 33,410,000 | $ 23,670,000 |

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.

**NOTE 11: Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

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

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

Municipal Vehicle Program

A. Liability - This program may pay all sums the municipality legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered municipal vehicle and for which the municipality is liable. The limit of payment by the program is $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.

B. 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 covered property.

**NOTE 11: Risk Management (Continued)**

Municipal Legal Defense Program – The program shall, at the sole discretion of the program administrators, provide extraordinary legal defense and extraordinary expenses in suits against municipal officials and employees and civil rights suits against the municipal government of a participating municipality and pay extraordinary judgments (for actual damages – not punitive damages) imposed on municipal officials and employees and the municipal government. The program shall never be liable to reimburse the municipal government, municipal officials and employees because of judgment in any one lawsuit for more than 25 percent of the program's available funds at time the lawsuit was filed or the judgment becomes final, or $1 million, whichever is less. The city agrees to pay into the program each year a charge established by the steering committee. Each city also agrees to pay the first $2,000 of the aggregate cost for all expenses on each lawsuit. This cost deposit is not refundable.

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of $300,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a $1,000 deductible per occurrence.

**NOTE 12: Municipal Judge's and Clerk's Retirement Plan**

Plan Description

The Municipal Judge's and Clerk's Retirement Plan is a single-employer defined benefit pension plan that covers the Municipal Judges and Clerks of the City. The plan, administered by the City, provides retirement, disability and death benefits to plan members and their beneficiaries. The plan does not provide for post-retirement benefit increases. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. The plan was closed to new entrants on January 1, 2005. The plan does not issue a stand-alone financial report but is included in the City's financial report.

Contributions

Contributions are not required by the City or the covered employees under present legislation. If the accumulated assets of the fund ever become deficient to pay the retirement benefits under the plan, the deficiency shall be met by payments from the City's General Fund and proportionately from the County's General Fund, if the salary of the Municipal Judge is paid partially by the County, until such time as the plan accumulates funds sufficient to pay benefits.

**NOTE 13: Firemen's Pension and Relief Plan**

Plan Description

The Firemen's Pension and Relief Plan is a single-employer defined benefit pension plan that covers municipal firemen employed prior to January 1, 1983. The plan, administered by the City, provides retirement, disability and survivor benefits. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. State law does provide that upon actuarial soundness of the plan, the Board may increase retirement benefits. The plan was closed to new entrants on January 1, 1983. The plan does not issue a stand-alone financial report but is included in the City's financial report.

**NOTE 13: Firemen's Pension and Relief Plan (Continued)**

Contributions

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

Deferred Retirement Option Plan

The local firemen's pension and relief board of trustees approved the participation in the Arkansas Fire Fighter's Deferred Retirement Option Plan (DROP). Any full-paid fire fighter who is a member of the firemen's pension and relief fund who has at least twenty (20) years of credited service and who is eligible to receive a service retirement pension may elect to participate in the plan. The duration of participation shall not exceed five (5) years.

When a member begins participation in the DROP, the contribution of the fire fighter and the employer contribution shall continue to be paid. Municipal matching contributions for employees who elect the DROP shall be credited equally to the firemen's pension and relief fund and to the deferred retirement plan. The monthly retirement benefits that would have been due had the member elected to cease employment and receive a service retirement shall be paid into the DROP account.

At the end of the five years, the participant has certain options regarding the method of payment.

At the conclusion of the member's participation, the member shall terminate employment with all participating municipalities as a fire fighter and start receiving the member's accrued monthly retirement benefit from the firemen's pension and relief fund.

**NOTE 14: Policemen's Pension and Relief Plan**

Plan Description

The Policemen's Pension and Relief Plan is a single-employer defined benefit pension plan that covers municipal policemen employed prior to January 1, 1983. The plan, administered by the City, provides retirement, disability and survivor benefits. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. State law does provide that upon actuarial soundness of the plan, the Board may increase retirement benefits. The plan was closed to new entrants on January 1, 1983. The plan does not issue a stand-alone financial report but is included in the City's financial report.

**NOTE 14: Policemen's Pension and Relief Plan (Continued)**

Contributions

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

Deferred Retirement Option Plan

The local policemen's pension and relief board of trustees approved the participation in the Arkansas Police Officer's Deferred Retirement Option Plan (DROP). Any police officer who is a member of the policemen's pension and relief fund who has at least twenty (20) years of credited service and who is eligible to receive a service retirement pension may elect to participate in the plan. The duration of participation shall not exceed five (5) years, except in certain circumstances as allowed by law.

When a member begins participation in the DROP, the contribution of the police officer and the employer contribution shall continue to be paid. Municipal matching contributions for employees who elect the DROP shall be credited equally to the policemen's pension and relief fund and to the deferred retirement plan. The monthly retirement benefits that would have been due had the member elected to cease employment and receive a service retirement shall be paid into the DROP account.

The participant has certain options regarding the method of payment.

At the conclusion of the member's participation, the member shall terminate employment with all participating municipalities as a police officer and start receiving the member's accrued monthly retirement benefit from the policemen's pension and relief fund.

**NOTE 15: Local Police and Fire Retirement System (LOPFI)**
**(A Defined Benefit Pension Plan)**

Plan Description

The City contributes to the Local Police and Fire Retirement System (LOPFI), an agent multiple employer retirement system that acts as a common investment and administrative agent for cities and towns in Arkansas. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Local Police and Fire Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by writing to Arkansas Local Police and Fire Retirement System, P. O. Drawer 34164, Little Rock, Arkansas 72203 or by calling 1-501-682-1745.

**NOTE 15: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan) (Continued)**

Funding Policy

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

A. Paid service not covered by Social Security: 6% of gross pay

B. Paid service also covered by Social Security: no employee contribution

C. Volunteer fire service: no employee contribution

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.

**NOTE 16: Non-Uniformed Employees Pension Plan**

Plan Description

The Non-Uniformed Employees Pension Plan of the City of Pine Bluff is a single-employer defined pension plan that covers all non-uniformed full-time employees of the City. The pension plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements may be amended by the City of Pine Bluff Retirement Board and the Pine Bluff City Council.

Funding Policy

Funding is provided by contributions of 3% by the employee and 7% by the City of the employee's total annual compensation.

**NOTE 17: Joint Ventures**

**A. Metropolitan Emergency Communications Association**

The City of Pine Bluff belongs to the Metropolitan Emergency Communications Association, as set up by an amended interlocal cooperation agreement, dated May 13, 1996, which is composed of the Cities of Pine Bluff, White Hall, Redfield, Altheimer, Wabbaseka, Humphrey, and Sherrill and Jefferson County. The Association is governed by seven commissioners which include the City of Pine Bluff's Mayor, Police Chief and Fire Chief, Jefferson County's County Judge and Sheriff, the Office of Emergency Service's Coordinator and the Chairman of the 911 Administrative Board by virtue of their term in office or employment with the local government. Pursuant to the aforementioned amended agreement for 1996, the participants' percentage share of any deficit between 911 telephone fee revenue and operating expenses was as follows:

| | |
|---|---|
| City of Pine Bluff | 70.76% |
| City of White Hall | 2.25% |
| City of Redfield | .63% |
| City of Altheimer | .57% |
| City of Wabbaseka | .19% |
| City of Humphrey | .21% |
| City of Sherrill | .04% |
| Jefferson County | 25.35% |
| Total | 100.00% |

Separate financial statements are not available

**NOTE 17: Joint Ventures (Continued)**

**B. Pine Bluff and Jefferson County Library System**

The City of Pine Bluff and Jefferson County entered into an agreement in August 1979 in accordance with Ark. Code Ann. 25-20-101 through 25-20-108 to establish a library system for the Jefferson County, Arkansas area. The System is composed of five (5) members appointed by the Jefferson County Judge with Quorum Court approval and six (6) members appointed by the Mayor of Pine Bluff and ratified by the City Council. Title to fixed assets held by the constituent governmental units and used for library purposes at the time of the execution of this agreement shall remain unchanged although additional assets may be acquired in the name of the System. The Board shall fix the number and salaries of employees of the System. Separate financial statements are available at 200 East Eighth Street, Pine Bluff, Arkansas 71601.

Schedule 1

CITY OF PINE BLUFF, ARKANSAS
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Unaudited)

| | Original Cost | Accumulated Depreciation | Balance at December 31, 2004 |
|---|---|---|---|
| Land | $ 381,515 | | $ 381,515 |
| Buildings | 12,935,007 | $ (9,060,233) | 3,874,774 |
| Infrastructure | 14,584,856 | (10,532,339) | 4,052,517 |
| Improvements | 1,585,403 | (308,075) | 1,277,328 |
| Heavy Machinery | 8,368,962 | (5,300,727) | 3,068,235 |
| Vehicles | 3,639,993 | (2,736,973) | 903,020 |
| Equipment | 2,307,442 | (1,432,147) | 875,295 |
| Totals | $ 43,803,178 | $ (29,370,494) | $ 14,432,684 |