

City of Pine Bluff, Arkansas

**Regulatory Basis Financial Statements,
Supplemental Information and Other Reports**

December 31, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF PINE BLUFF, ARKANSAS
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Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverly
Senate Co-Vice Chair
Rep. Sandra Prater
House Co-Vice Chair

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 regulatory basis 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, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions 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 and the standards 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 opinions.

As described more fully in Note 1(B and C), the City has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. 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, 2005, 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 regulatory basis financial statements. The regulatory basis as prescribed or permitted by Arkansas Code requires these funds to be presented as part of the other funds 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 other funds in the aggregate column is not reasonably determinable. The City's regulatory basis financial statements also do not disclose all the required information concerning deposit and investment risks, which should be included in order to conform with the regulatory basis of accounting described in Note 1(C).

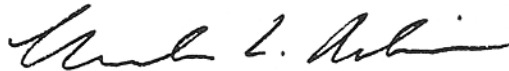
In our opinion, because of the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective regulatory basis financial position of the other funds in the aggregate of the City of Pine Bluff, Arkansas, as of December 31, 2005, and the respective changes in the regulatory basis financial position for the year then ended on the basis of accounting as described in Note 1(C).

In addition, in our opinion, except for the effects of not disclosing all required information concerning deposit and investment risks, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund and street fund of the City of Pine Bluff, Arkansas, as of December 31, 2005, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and street fund for the year then ended on the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006 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 grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis 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, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Charles L. Robinson".

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
September 28, 2006
LOM107605

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
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House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the accompanying regulatory basis 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, 2005 and have issued our report thereon dated September 28, 2006. 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 deposit and investment risks. 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.

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 opinions on the financial statements and not to provide an opinion 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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable 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 caused by error or fraud 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.

To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions should be distributed among appropriate employees. All City officials, as specified in the Other Issues section of this report, did not segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the City's assets, because of limited financial resources. We recommend that the financial accounting duties in each office be segregated among employees to the extent possible.

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

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 the City's compliance with certain provisions of the state constitution, laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Other Issues

The following issues are not reportable conditions or material instances of noncompliance, 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 2005:

Mayor: Carl Redus, Jr.
Finance Director: Ed Bogy
Treasurer: Greg Gustek
City Clerk: Loretta Whitfield
District Court Clerk (Division 1): Debbie Drake
District Court Clerk (Division 2): Veronica Young
Police Chief: Daniel Moses (January 1, 2005 through October 11, 2005)/
Rickey Whitmore (October 12, 2005 through December 31, 2005)

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.

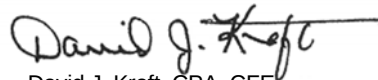
Our audit procedures indicated that the offices of **Mayor, Finance Director, Treasurer, City Clerk** and **Police Chief** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices were noted in the offices of **District Court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

The ending balances in the **District Courts' (Divisions 1 and 2)** bank accounts, \$213,447 and \$56,031, 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)** again did not properly maintain cash receipt and disbursement journals and **District Court (Division 1)** again did not issue receipts for all items of revenue.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local City government, state executive and oversight management, the federal awarding agencies and pass-through entities, if applicable, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
September 28, 2006

CITY OF PINE BLUFF, ARKANSAS
COMBINED BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2005

Exhibit A

	General	Street	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 1,865,211	\$ 714,348	\$ 13,597,231
Investments			47,889,162
			<u>47,889,162</u>
TOTAL ASSETS	<u>\$ 1,865,211</u>	<u>\$ 714,348</u>	<u>\$ 61,486,393</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending	<u>\$ 215,103</u>		<u>\$ 284,131</u>
Fund Balances:			
Reserved	139,800	\$ 714,348	61,202,262
Unreserved:			
Designated	283,588		
Undesignated	1,226,720		
Total Fund Balances	<u>1,650,108</u>	<u>714,348</u>	<u>61,202,262</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,865,211</u>	<u>\$ 714,348</u>	<u>\$ 61,486,393</u>

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

CITY OF PINE BLUFF, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Street	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 1,129,079	\$ 2,805,092	\$ 864,840
Federal aid	768,620		1,112,573
Property taxes	2,389,898	521,312	555,674
Franchise taxes	2,373,035		
Sales taxes	13,058,460		
Fines, forfeitures and costs	1,065,889		200,418
Interest and dividends	38,062	18,358	4,199,579
Local permits and fees	1,200,975		
Sanitation fees	2,469,992		
Transit fees	36,610		
Parks and recreation fees			323,440
Health insurance premiums			2,924,509
Other	143,300	159,817	1,197,004
TOTAL RECEIPTS	24,673,920	3,504,579	11,378,037
DISBURSEMENTS			
Current:			
General government	3,487,442		6,957,724
Law enforcement	9,265,435		2,949,488
Highways and streets	72,983	3,388,590	
Public safety	5,593,975		3,271,539
Sanitation	2,516,094		
Health	57,220		
Recreation and culture	765,148		1,190,910
Social services	20,732		
Transit	887,935		
Community development			1,476,631
Total Current	22,666,964	3,388,590	15,846,292

CITY OF PINE BLUFF, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Street	Other Funds In The Aggregate
DISBURSEMENTS (Continued)			
Debt service:			
Lease principal	\$ 122,725		
Lease interest	91,336		
	<u>22,881,025</u>	<u>\$ 3,388,590</u>	<u>\$ 15,846,292</u>
TOTAL DISBURSEMENTS			
	<u>22,881,025</u>	<u>\$ 3,388,590</u>	<u>\$ 15,846,292</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>1,792,895</u>	<u>115,989</u>	<u>(4,468,255)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	20,000		1,687,165
Transfers out	<u>(1,687,165)</u>		<u>(20,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,667,165)</u>		<u>1,667,165</u>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	125,730	115,989	(2,801,090)
FUND BALANCES - JANUARY 1	<u>1,524,378</u>	<u>598,359</u>	<u>64,003,352</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,650,108</u>	<u>\$ 714,348</u>	<u>\$ 61,202,262</u>

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

CITY OF PINE BLUFF, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,718,345	\$ 1,129,079	\$ (589,266)	\$ 2,650,000	\$ 2,805,092	\$ 155,092
Federal aid	949,500	768,620	(180,880)			
Property taxes	1,720,000	2,389,898	669,898	514,000	521,312	7,312
Franchise taxes	2,190,200	2,373,035	182,835			
Sales taxes	12,728,968	13,058,460	329,492			
Fines, forfeitures and costs	968,319	1,065,889	97,570			
Interest and dividends	14,383	38,062	23,679	6,000	18,358	12,358
Local permits and fees	1,110,600	1,200,975	90,375			
Sanitation fees	2,584,989	2,469,992	(114,997)			
Transit fees	32,000	36,610	4,610			
Other	14,300	143,300	129,000	55,000	159,817	104,817
TOTAL RECEIPTS	24,031,604	24,673,920	642,316	3,225,000	3,504,579	279,579
DISBURSEMENTS						
Current:						
General government	4,926,459	3,487,442	1,439,017			
Law enforcement	9,752,224	9,265,435	486,789			
Highways and streets	72,983	72,983		3,723,359	3,388,590	334,769
Public safety	5,894,758	5,593,975	300,783			
Sanitation	2,577,281	2,516,094	61,187			
Health	58,200	57,220	980			
Recreation and culture	129,120	765,148	(636,028)			
Social services	51,612	20,732	30,880			
Transit	1,087,533	887,935	199,598			
Total Current	24,550,170	22,666,964	1,883,206	3,723,359	3,388,590	334,769
Debt service:						
Lease principal		122,725	(122,725)			
Lease interest		91,336	(91,336)			
TOTAL DISBURSEMENTS	24,550,170	22,881,025	1,669,145	3,723,359	3,388,590	334,769

CITY OF PINE BLUFF, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND STREET FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit C

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (518,566)</u>	<u>\$ 1,792,895</u>	<u>\$ 2,311,461</u>	<u>\$ (498,359)</u>	<u>\$ 115,989</u>	<u>\$ 614,348</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	236,395	20,000	(216,395)			
Transfers out	<u>(933,356)</u>	<u>(1,687,165)</u>	<u>(753,809)</u>			
TOTAL OTHER FINANCING SOURCES (USES)	<u>(696,961)</u>	<u>(1,667,165)</u>	<u>(970,204)</u>			
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(1,215,527)	125,730	1,341,257	(498,359)	115,989	614,348
FUND BALANCES - JANUARY 1	<u>1,524,378</u>	<u>1,524,378</u>		<u>598,359</u>	<u>598,359</u>	
FUND BALANCES - DECEMBER 31	<u><u>\$ 308,851</u></u>	<u><u>\$ 1,650,108</u></u>	<u><u>\$ 1,341,257</u></u>	<u><u>\$ 100,000</u></u>	<u><u>\$ 714,348</u></u>	<u><u>\$ 614,348</u></u>

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

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 and accounting as prescribed by Arkansas code. This regulatory basis of presentation and accounting differs 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 requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and street fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of: a balance sheet; a statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (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 regulatory basis 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 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: Community Development Fund, Health Insurance Fund, Parks and Recreation Fund, LLEBG Fund, Administration of Justice Fund, and Lakeshore Pavilion Fund.

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, Firemen's Pension Fund, Policemen's Pension Fund, Cemetery Trust Fund, Payroll Fund, City Collector Fund, District Court (Division 1), and District Court (Division 2).

C. Basis of Accounting

The financial statements are presented using a regulatory 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. This regulatory basis differs from accounting principles generally accepted in the United States of America.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

As a result of the use of this regulatory 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, sales taxes 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.

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 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.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Budget Law (Continued)

- 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 regulatory basis for the General Fund, Street Fund and the other Special Revenue Funds.

NOTE 2: Cash and Investments

Deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk has not been provided as required by Governmental Accounting Standards Board Statement No. 40.

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 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.

(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.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4: Public Fund Investments

A summary of investments by fund types is as follows:

Fund Type	December 31, 2005	
	Reported Amount	Fair Value
Fiduciary	\$ 47,889,162	\$ 51,861,709

These investments are composed of the following:

	December 31, 2005	
	Reported Amount	Fair Value
U.S. government obligations	\$ 9,202,564	\$ 9,126,679
Domestic corporate bonds	13,492,602	13,451,696
Common and foreign stocks	19,607,549	23,600,642
Mortgages	4,211,252	4,123,288
Mutual funds	1,375,195	1,559,404
Totals	\$ 47,889,162	\$ 51,861,709

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, 2005, the legal debt limit for the City was \$68,475,571. 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.

Disbursements that are not in accordance with the Federal program requirements are subject to reimbursement by the City.

NOTE 7: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2005
<u>General</u>	
SID Bonds	\$ 139,800
<u>Street</u>	\$ 714,348

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7: Reserved Fund Balance (Continued)

	December 31, 2005
<u>Other Funds in the Aggregate</u>	
Special Revenue Funds:	
Community Development	\$ 185,446
Health Insurance	295,162
Parks and Recreation	110,190
LLEBG	1
Administration of Justice	464,889
Total Special Revenue	<u>1,055,688</u>
Trust and Agency:	
City Retirement	27,012,992
Firemen's Pension	16,957,652
Policemen's Pension	15,783,718
Cemetery Trust	392,212
Total Trust and Agency	<u>60,146,574</u>
 Total Other Funds in the Aggregate	 <u><u>\$ 61,202,262</u></u>

NOTE 8: Designated Fund Balance

Designated fund balance consists of the following:

	December 31, 2005
Transit	\$ 26,520
Sewer Improvement District Loans	36,778
Vice Intelligence Narcotics	21,905
Capital Projects	186,214
Public Safety Building	12,171
 Total	 <u><u>\$ 283,588</u></u>

NOTE 9: Commitments

Total commitments consist of the following at December 31, 2005:

	December 31, 2005
Long-Term Debt	<u><u>\$ 3,075,015</u></u>

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 9: Commitments (Continued)

Long-Term Debt

Long-Term Debt at December 31, 2005 is comprised of the following:

	<u>December 31, 2005</u>
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 associated energy conservation measures, quarterly installments of \$47,521.78 for 60 months. Payments are to be made from the General Fund.	\$ 1,512,601
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 Tourist Promotion Commission Fund.	1,518,282
Lease-purchase agreement with Little Rock Dodge on the purchase of a 2005 Dodge Ram 1500 and a 2005 Dodge Durango, annual installments of \$15,819.44 for three (3) years. Payments are to be made from the General Fund.	29,077
Lease-purchase agreement with Little Rock Dodge on the purchase of a 2005 Dodge Durango, annual installments of \$8,155.13 for three (3) years. Payments are to be made from the General Fund.	<u>15,055</u>
TOTAL LONG-TERM DEBT	<u><u>\$ 3,075,015</u></u>

Due to the City's regulatory 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:

<u>Years Ending December 31,</u>	<u>Leases</u>
2006	\$ 374,187
2007	374,187
2008	350,212
2009	350,212
2010	350,212
2011 through 2015	1,751,062
2016 through 2019	<u>662,973</u>
Total Obligations	4,213,045
Less Interest	<u>1,138,030</u>
Total Principal	<u><u>\$ 3,075,015</u></u>

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005
International Paper Co.	Various	Various	\$ 19,910,000	\$ 13,535,000
Weyerhaeuser Co.	Various	1977	1,500,000	1,000,000
Central Maloney, Inc.	5552	1993	3,000,000	3,000,000
Totals			<u>\$ 24,410,000</u>	<u>\$ 17,535,000</u>

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 have been several lawsuit settlements in the past three (3) years that exceeded the coverage provided by the Arkansas Municipal League Legal Defense Fund. The settlements paid by the City totaled \$40,500, \$899,870 and \$22,000 for the years 2005, 2004 and 2003, respectively. 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.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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: Firemen's Pension and Relief Plan

Plan Description

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

Contributions

Active participants of the plan are required to make contributions of not less than 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.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 13: 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.

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

Plan Description

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

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

**NOTE 14: 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 15: Arkansas District Judge Retirement System

System Establishment. The Arkansas General Assembly established the Arkansas District Judge Retirement System (System) beginning January 1, 2005. The executive director and the administrative staff of the Arkansas Public Employees Retirement System (PERS) are the executive director and administrative staff of the System.

A local government that had an established municipal judge and clerk retirement fund was required by state law to contribute on January 1, 2005, an amount of money to the System that represented the actuarially determined accrued liability for those judges, former judges, clerks, and former clerks who were covered by the municipal judge and clerk retirement fund on December 31, 2004. If the local municipal judge and clerk retirement fund did not have sufficient money available to pay the accrued liability on January 1, 2005, then the remaining amount of the accrued liability shall be paid on or before December 31 each year after for up to the next thirty (30) years based on a thirty-year amortization period. The benefits earned and the eligibility requirements transferred from local municipal judge and clerk retirement funds to the System.

All municipal court clerks and district court clerks who were members of a local municipal judge and clerk's retirement fund on December 31, 2004, are covered by the System for their service until that date, and became members of PERS on January 1, 2005. A local government employing a district court clerk on December 31, 2004, that was not a participating employer under PERS was required by state law to become a participating employer under PERS on January 1, 2005. All district judges and former district or municipal court judges not covered by PERS on December 31, 2004, are required to be covered by the System. Those covered by PERS on December 31, 2004, will continue to be covered by PERS on January 1, 2005.

Plan Description. The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan that covers all district judges elected or appointed to office unless covered by PERS and district court clerks. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and can be amended only by the Arkansas General Assembly. The Arkansas District Judge Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arkansas Public Employees Retirement System, One National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

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

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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	<u>25.35%</u>
Total	<u>100.00%</u>

The City paid MECA \$603,315 in 2005. Separate financial statements are not available.

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. The City paid the Pine Bluff and Jefferson County Library System \$579,841 in 2005. Separate financial statements are available at 200 East Eighth Street, Pine Bluff, Arkansas 71601.

CITY OF PINE BLUFF, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 18: Subsequent Events

- A. The City was a defendant in a lawsuit (Moses v. City of Pine Bluff, et al) that was filed in U.S. District Court, Eastern District, Western Division (Case No. 4:06-CV-00165-JLH) by the former police chief, Daniel Moses, who was terminated on October 11, 2005. Mr. Moses claimed that the City discriminated against him because of his race in violation of the Arkansas Civil Rights Act, that the City violated his constitutional rights, that the City violated the Family Medical Leave Act, and that the City is guilty of retaliation for him exercising his federally protected rights. Mr. Moses sought back pay, compensatory damages, pre-judgment interest, post-judgment interest, punitive damages, and attorney fees and costs. This lawsuit was settled for \$169,440 in June 2006. The City paid one-half (1/2) of the settlement (\$84,720) and the other half was paid by the Arkansas Municipal League Legal Defense Fund.
- B. The City was a party in a lawsuit (Jack Jones, Jefferson County Judge vs. City of Pine Bluff, et al) that was filed in Jefferson County Circuit Court, Civil Division (Case No. CV-2004-844-3) by Jefferson County regarding unpaid jail fees. The County filed a complaint for a breach of contract against the City and the City filed a counterclaim for a breach of contract against the County. This lawsuit was settled in May 2006. The terms of the settlement require the City to pay \$8,000 per month for 10 months (March 2006 - December 2006) to the Jack Jones Juvenile Justice Center, \$23,542 per month for 24 months (January 2007 - December 2008) to the County, and a one-time payment of \$75,000 to the County in March 2006.

CITY OF PINE BLUFF, ARKANSAS
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)

Schedule 1

	Original Cost	Accumulated Depreciation	Balance at December 31, 2005
Land	\$ 381,515		\$ 381,515
Buildings	12,935,007	\$ (9,318,826)	3,616,181
Infrastructure	15,104,707	(11,029,888)	4,074,819
Improvements	1,599,383	(371,838)	1,227,545
Heavy machinery	8,403,790	(5,807,896)	2,595,894
Vehicles	3,893,489	(3,140,374)	753,115
Equipment	2,347,506	(1,619,318)	728,188
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$44,665,397</u>	<u>\$(31,288,140)</u>	<u>\$13,377,257</u>