City of Pine Bluff, Arkansas

Regulatory Basis Financial Statements and Other Reports

December 31, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE

CITY OF PINE BLUFF, ARKANSAS
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Arkansas

Roger A. Norman, JD, 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, 2006, 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 practices 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, 2006, or the changes in its financial position or where applicable, its cash flows, 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, 2006, 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 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, 2006, 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 July 18, 2007 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.

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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

Roger A. Norman

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
July 18, 2007
LOM107606

Arkansas

Roger A. Norman, JD, 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 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2006, and have issued our report thereon dated July 18, 2007. We issued an adverse opinion because the City prepared the financial statements using accounting principles 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. However, with respect to the basis of accounting described in Note 1(B and C), 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, and 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.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements of the City of Pine Bluff, Arkansas, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control:

2006-1 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2006-1 to be a material weakness.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

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 significant deficiencies, material weaknesses 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 2006:

Mayor: Carl A. Redus, Jr.
Finance Director: Eric Tucker
City Clerk: Loretta Whitfield
District Court Clerk (Division 1): Debbie Drake
District Court Clerk (Division 2): Veronica Young
Police Chief: John Howell

We reviewed the City's compliance with certain Arkansas laws concerning general and district court accounting, budgeting, purchasing, investing and depositing of public funds.

Our audit procedures indicated that the Offices of **Finance Director, 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 **Mayor, District Court (Division 1)** and **District Court (Division 2**) and are reported below:

The City entered into several lease-purchase agreements in 2006 without authorizing ordinances being adopted by the City Council as required by Ark. Code Ann. 14-78-103.

The ending balances in the District Courts' (Divisions 1 and 2) bank accounts, $225,851 and $61,552, respectively, again were not identified with receipts issued for cases not yet adjudicated. Failure to identify these receipts preclude 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 revenues required by Ark. Code Ann. 16-10-209.

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

David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 18, 2007

Exhibit A

CITY OF PINE BLUFF, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2006

	General	Street	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	$ 1,731,074	$ 699,835	$ 9,629,923
Investments			50,529,307
TOTAL ASSETS	$ 1,731,074	$ 699,835	$ 60,159,230
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending	$ 166,522		$ 291,077
Fund Balances:			
Reserved	139,800	$ 699,835	59,868,153
Unreserved:			
Designated	285,155		
Undesignated	1,139,597		
Total Fund Balances	1,564,552	699,835	59,868,153
TOTAL LIABILITIES AND FUND BALANCES	$ 1,731,074	$ 699,835	$ 60,159,230

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 -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	General	Street	Other Funds In The Aggregate
RECEIPTS			
State aid	$ 1,209,933	$ 2,666,699	$ 658,746
Federal aid	585,101		1,523,747
Property taxes	2,273,159	539,046	550,930
Franchise taxes	2,461,737		
Sales taxes	13,190,966		
Fines, forfeitures and costs	934,030		181,381
Interest and dividends	62,682	29,484	4,440,841
Local permits and fees	1,059,342		
Sanitation fees	2,744,500		
Transit fees	44,853		
Parks and recreation fees			253,232
Other	344,374	220,296	1,300,820
TOTAL RECEIPTS	24,910,677	3,455,525	8,909,697
DISBURSEMENTS			
Current:			
General government	3,886,096		4,353,096
Law enforcement	9,461,633		1,960,873
Highways and streets	50,940	3,470,038	
Public safety	5,994,375		2,272,611
Sanitation	2,606,844		
Health	58,200		
Recreation and culture	657,037		1,102,170
Social services	19,355		
Community development	43,708		1,619,175
Transit	896,724		
Total Current	23,674,912	3,470,038	11,307,925
Debt Service:			
Lease principal	167,803		
Lease interest	89,399		
TOTAL DISBURSEMENTS	23,932,114	3,470,038	11,307,925
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	978,563	(14,513)	(2,398,228)

CITY OF PINE BLUFF, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	General	Street	Other Funds In The Aggregate
OTHER FINANCING SOURCES (USES)			
Transfers in	$ 102,001		$ 1,166,120
Transfers out	(1,166,120)		(102,001)
TOTAL OTHER FINANCING SOURCES (USES)	(1,064,119)		1,064,119
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(85,556)	$ (14,513)	(1,334,109)
FUND BALANCES - JANUARY 1	1,650,108	714,348	61,202,262
FUND BALANCES - DECEMBER 31	$ 1,564,552	$ 699,835	$ 59,868,153

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

Exhibit C

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, 2006

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	$ 1,862,335	$ 1,209,933	$ (652,402)	$ 2,605,000	$ 2,666,699	$ 61,699
Federal aid	908,898	585,101	(323,797)			
Property taxes	1,740,000	2,273,159	533,159	520,000	539,046	19,046
Franchise taxes	2,502,600	2,461,737	(40,863)			
Sales taxes	13,229,273	13,190,966	(38,307)			
Fines, forfeitures and costs	1,137,629	934,030	(203,599)			
Interest and dividends	33,849	62,682	28,833	12,000	29,484	17,484
Local permits and fees	1,187,317	1,059,342	(127,975)			
Sanitation fees	2,670,000	2,744,500	74,500			
Transit fees	32,000	44,853	12,853			
Other	35,300	344,374	309,074	88,000	220,296	132,296
TOTAL RECEIPTS	25,339,201	24,910,677	(428,524)	3,225,000	3,455,525	230,525
DISBURSEMENTS						
Current:						
General government	4,514,371	3,886,096	628,275			
Law enforcement	10,086,602	9,461,633	624,969			
Highways and streets	65,090	50,940	14,150	3,834,349	3,470,038	364,311
Public safety	6,417,417	5,994,375	423,042			
Sanitation	2,669,788	2,606,844	62,944			
Health	58,200	58,200				
Recreation and culture	90,120	657,037	(566,917)			
Social services	20,612	19,355	1,257			
Community development		43,708	(43,708)			
Transit	890,046	896,724	(6,678)			
Total Current	24,812,246	23,674,912	1,137,334	3,834,349	3,470,038	364,311
Debt Service:						
Lease principal		167,803	(167,803)			
Lease interest		89,399	(89,399)			
TOTAL DISBURSEMENTS	24,812,246	23,932,114	880,132	3,834,349	3,470,038	364,311
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	526,955	978,563	451,608	(609,349)	(14,513)	594,836

Exhibit C

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, 2006

	General			Street		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)						
Transfers in	$ 284,972	$ 102,001	$ (182,971)			
Transfers out	(1,044,767)	(1,166,120)	(121,353)			
TOTAL OTHER FINANCING SOURCES (USES)	(759,795)	(1,064,119)	(304,324)			
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(232,840)	(85,556)	147,284	$ (609,349)	$ (14,513)	$ 594,836
FUND BALANCES - JANUARY 1	1,650,108	1,650,108		714,348	714,348	
FUND BALANCES - DECEMBER 31	$ 1,417,268	$ 1,564,552	$ 147,284	$ 104,999	$ 699,835	$ 594,836

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 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, Transit, SID Loan, VIN, Capital Projects and Public Safety Facility Building.

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 Commission 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 Account, District Court (Division 1), District Court (Division 2), and City Collector Account.

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.

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

<u>Cash and Cash Equivalents</u>

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.

<u>Investments</u>

Investments are reported at cost.

<u>Liabilities</u>

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.

<u>Fund Balance</u> -

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.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Budget Law

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 have 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.

NOTE 4: Public Fund Investments

A summary of investments by fund types is as follows:

Fund Type	December 31, 2006 Reported Amount	December 31, 2006 Fair Value
Fiduciary	$ 50,529,307	$ 55,627,429

These investments are composed of the following:

	December 31, 2006 Reported Amount	December 31, 2006 Fair Value
U.S. government obligations	$ 11,005,980	$ 10,910,957
Domestic corporate bonds	12,564,175	12,717,591
Common and foreign stocks	21,344,707	25,990,008
Mortgages	3,921,370	3,842,310
Mutual funds	1,693,075	2,166,563
Totals	$ 50,529,307	$ 55,627,429

NOTE 5: Legal Debt Limit

A. Bonded Debt

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, 2006, the legal debt limit for the bonded debt was $70,140,569. There were no property tax secured bond issues.

B. Short-term Financing Obligations

The City is subject to a constitutional limitation for short-term financing obligations equal to five percent (5%) of the assessed value of taxable property within the City as determined by the last tax assessment. At December 31, 2006, the legal debt limit for short-term financing obligations was $18,761,210. The amount of short-term financing obligations was $226,761 leaving a legal debt margin of $18,534,449.

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, 2006
General	
SID Bonds	$ 139,800
Street	$ 699,835
Other Funds in the Aggregate	
Special Revenue Funds:	
Community Development	$ 195,776
Health Insurance	193,788
Parks and Recreation	108,705
Administration of Justice	476,658
Total Special Revenue	974,927
Trust Funds:	
City Retirement	26,246,773
Firemen's Pension	16,537,396
Policemen's Pension	15,696,779
Cemetery	412,278
Total Trust	58,893,226
Total Other Funds in the Aggregate	$ 59,868,153

NOTE 8: Deficit Account Balance

The transit account had a deficit account balance as of December 31, 2006 of $2,066.

NOTE 9: Commitments

Total commitments consist of the following at December 31, 2006:

	December 31, 2006
Long-term debt	$ 3,071,635

Long-Term Debt

Long-Term Debt at December 31, 2006 is comprised of the following:

	December 31, 2006
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.	$ 1,407,997

NOTE 9: Commitments (Continued)

Long-Term Debt (Continued)

	December 31, 2006
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.	$ 1,436,877
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.	14,949
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.	7,729
Promissory note with Simmons First National Bank for the purpose of roof repairs at the Convention Center, monthly installments of $3,042.19 for 36 months. Payments are to be made from the Advertising and Tourist Promotion Commission Fund.	81,936
Lease-purchase agreement with Little Rock Dodge on the purchase of a 2006 Dodge Ram 1500, annual installments of $6,173.04 for three (3) years. Payments are to be made from the General Fund.	11,383
Lease-purchase agreement with Little Rock Dodge on the purchase of a 2006 Dodge Durango, annual installments of $8,480.99 for three (3) years. Payments are to be made from the General Fund.	15,608
Lease-purchase agreement with Little Rock Dodge on the purchase of two (2) 2006 Dodge Chargers, annual installments of $15,456.13 for three (3) years. Payments are to be made from the General Fund.	28,634
Lease-purchase agreement with Little Rock Dodge on the purchase of a 2005 Dodge Ram 2500, annual installments of $13,029.82 for three (3) years. Payments are to be made from the General Fund.	12,313
Lease-purchase agreement with Ford Motor Credit on the purchase of four (4) 2007 Ford Crown Victorias, annual installments of $29,816.63 for three (3) years. Payments are to be made from the General Fund.	54,209
Total Long-Term Debt	$ 3,071,635

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

NOTE 9: Commitments (Continued)

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 at December 31, 2006:

Years Ending December 31,	Notes	Leases	Total
2007	$ 36,506	$ 447,141	$ 483,647
2008	36,506	410,139	446,645
2009	15,211	350,215	365,426
2010		350,212	350,212
2011		350,212	350,212
2012 through 2016		1,703,541	1,703,541
2017 through 2019		360,282	360,282
Total Obligations	88,223	3,971,742	4,059,965
Less Interest	6,287	982,043	988,330
Total Principal	$ 81,936	$ 2,989,699	$ 3,071,635

NOTE 10: 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 $259,720, $40,500 and $899,870 for the years 2006, 2005 and 2004, 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.

NOTE 10: Risk Management (Continued)

Municipal Vehicle Program (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 11: 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.

NOTE 12: 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 13: 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.

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

NOTE 13: Local Police and Fire Retirement System (LOPFI)
(A Defined Benefit Pension Plan) (Continued)

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 14: 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 Fund to the System.

All municipal court clerks and district court clerks who were members of a Local Municipal Judge and Clerk 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.

NOTE 15: 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 16: 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 (7) 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%

The City paid MECA $666,663 in 2006.

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 $551,504 in 2006. Separate financial statements are available at 200 East Eighth Street, Pine Bluff, Arkansas 71601.

NOTE 17: Designated Account Balances – General Fund

Designated account balances consist of the following:

	December 31, 2006
GENERAL FUND	
Transit	$ (2,066)
Sewer Improvement District Loans	42,480
Vice Intelligence Narcotics	31,154
Capital Projects	194,979
Public Safety Building	18,608
Total	$ 285,155

Schedule 1

CITY OF PINE BLUFF, ARKANSAS
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Unaudited)

	Original Cost	Accumulated Depreciation	Balance at December 31, 2006
Land	$ 381,515		$ 381,515
Buildings	12,935,007	$ (9,575,387)	3,359,620
Infrastructure	15,104,707	(11,548,740)	3,555,967
Improvements	1,779,745	(439,290)	1,340,455
Heavy machinery	8,437,774	(6,203,797)	2,233,977
Vehicles	4,119,228	(3,403,116)	716,112
Equipment	2,461,420	(1,799,045)	662,375
Totals	$ 45,219,396	$ (32,969,375)	$ 12,250,021