

**City of West Memphis, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**December 31, 2006**

LEGISLATIVE JOINT AUDITING COMMITTEE





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Sen. Randy Laverty  
Senate Co-Chair  
Rep. J R Rogers  
House Co-Chair  
Sen. Bobby L. Glover  
Senate Co-Vice Chair  
Rep. Johnny Hoyt  
House Co-Vice Chair

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

City of West Memphis, 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 West Memphis, 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 West Memphis, 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 Utility and Airport Funds have not been included in the City's regulatory basis financial statements. The regulatory basis as prescribed or permitted by Arkansas Code requires the Utility and Airport 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 West Memphis, 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 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 West Memphis, 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 February 5, 2008 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 West Memphis, 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, JD, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
February 5, 2008  
LOM109406

Sen. Randy Lavery  
Senate Co-Chair  
Rep. J R Rogers  
House Co-Chair  
Sen. Bobby L. Glover  
Senate Co-Vice Chair  
Rep. Johnny Hoyt  
House Co-Vice Chair

# 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 West Memphis, 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 West Memphis, Arkansas, as of and for the year ended December 31, 2006, and have issued our report thereon dated February 5, 2008. 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 Utility and Airport 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 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 of the financial statements of the City of West Memphis, 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 certain deficiencies in internal control that we consider to be significant deficiencies.

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 deficiencies to be significant deficiencies 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. The 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.

The 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.

2006-2 Arkansas Code requires City management to maintain financial records. The City's financial records contained material misstatements. These misstatements were primarily due to omitted entries, classification errors and posting errors. The effects of the misstatements resulted in adjustments of \$517,896 to the General Fund, \$41,690 to the Street Fund, and \$240,210 to the Other Funds in the Aggregate financial statements. City officials should implement procedures to ensure that financial records are properly maintained and posted.

City officials have responded that procedures will be implemented to ensure that financial records will be properly maintained and have approved the appropriate entries to the City's financial records.

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.

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, of the significant deficiencies described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Internal Control over Financial Reporting section as item 2006-2.

#### 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: William Johnson  
Treasurer: Frank Martin  
City Clerk: Phillip Para  
District Court Clerk: Terri Griffin  
Police Chief: Robert Paudert

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

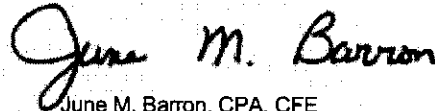
Our audit procedures indicated that the Offices of **Mayor**, **City Clerk**, **District Court Clerk** and **Police Chief** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices was noted in the Office of **Treasurer**.

#### **Treasurer**

The fixed asset list did not accurately reflect all motorized vehicles, asset purchases and deletions in noncompliance with Ark. Code Ann. §14-59-107.

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

A handwritten signature in black ink that reads "June M. Barron". The signature is written in a cursive style with a large initial "J" and "B".

June M. Barron, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
February 5, 2008

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CITY OF WEST MEMPHIS, ARKANSAS  
 BALANCE SHEET - REGULATORY BASIS  
 DECEMBER 31, 2006

	General	Street	Other Funds In The Aggregate
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,201,506	\$ 1,839,917	\$ 8,107,831
Investments			9,123,024
<b>TOTAL ASSETS</b>	<u>\$ 3,201,506</u>	<u>\$ 1,839,917</u>	<u>\$ 17,230,855</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Payroll taxes withheld			\$ 111,227
Settlements pending			223,773
Total Liabilities			<u>335,000</u>
Fund Balances:			
Reserved	\$ 206,979	\$ 1,839,917	16,895,855
Unreserved:			
Undesignated	2,994,527		
Total Fund Balances	<u>3,201,506</u>	<u>1,839,917</u>	<u>16,895,855</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 3,201,506</u>	<u>\$ 1,839,917</u>	<u>\$ 17,230,855</u>

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

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

	General	Street	Other Funds In The Aggregate
<b>RECEIPTS</b>			
State aid	\$ 811,866	\$ 1,338,114	\$ 946,130
Federal aid	95,425		413,641
Property taxes	41,015	112,749	880,349
Franchise taxes	2,256,897		
Sales taxes	7,057,869	1,161,886	100,111
Fines, forfeitures and costs	705,913		126,988
Interest and dividends	26,622	70,711	389,663
Local permits and fees	652,984		5,947
Sanitation fees			1,866,057
Southland breakage	422,370		
Advertising and promotion tax			1,186,870
911 fees			135,014
Other	474,784	2,537	156,011
<b>TOTAL RECEIPTS</b>	12,545,745	2,685,997	6,206,781
<b>DISBURSEMENTS</b>			
Current:			
General government	1,514,903		88,060
Law enforcement	6,318,035		689,176
Highways and streets	19,572	2,512,142	259,657
Public safety	3,650,445		693,771
Sanitation	15,674		1,791,683
Health	186,617		
Recreation and culture	495,905		548,574
Social services	551,841		182,534
Community development	374,881		1,134,004
<b>Total Current</b>	13,127,873	2,512,142	5,387,459

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

	General	Street	Other Funds In The Aggregate
DISBURSEMENTS (Continued)			
Debt Service:			
Bond interest and other charges			\$ 37,568
TOTAL DISBURSEMENTS	\$ 13,127,873	\$ 2,512,142	5,425,027
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(582,128)	173,855	781,754
OTHER FINANCING SOURCES (USES)			
Transfers in	341,910	38,817	692,783
Transfers out	(82,021)	(120,000)	(871,489)
Net gain from sale of investments			598,869
Bond proceeds			1,745,000
Contribution to airport	(174,159)		
Contribution to MidSouth Community College	(20,838)		
Contribution from utility	815,705		
Contribution to riverport	(28,152)		
Loan proceeds	212,675		
TOTAL OTHER FINANCING SOURCES (USES)	1,065,120	(81,183)	2,165,163
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	482,992	92,672	2,946,917
FUND BALANCES - JANUARY 1, PREVIOUSLY REPORTED	2,694,329	1,747,245	13,948,938
Restatement adjustment	24,185		
FUND BALANCES - JANUARY 1, AS RESTATED	2,718,514	1,747,245	13,948,938
FUND BALANCES - DECEMBER 31	\$ 3,201,506	\$ 1,839,917	\$ 16,895,855

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

CITY OF WEST MEMPHIS, 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

Exhibit C

	General		Street		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	
<b>RECEIPTS</b>					
State aid	\$ 1,030,000	\$ 811,866	\$ 1,450,000	\$ 1,338,114	\$ (111,886)
Federal aid	300,000	95,425			
Property taxes		41,015	95,000	112,749	17,749
Franchise taxes	2,147,500	2,256,897			
Sales taxes	6,777,333	7,057,869	1,260,000	1,161,886	(98,114)
Fines, forfeitures and costs	590,000	705,913			
Interest and dividends	20,250	26,622	40,000	70,711	30,711
Local permits and fees	695,200	652,984			
Southland breakage	410,000	422,370			
Other	384,000	474,784		2,537	2,537
<b>TOTAL RECEIPTS</b>	<b>12,354,283</b>	<b>12,545,745</b>	<b>2,845,000</b>	<b>2,685,997</b>	<b>(159,003)</b>
<b>DISBURSEMENTS</b>					
Current:					
General government	1,842,664	1,514,903			327,761
Law enforcement	6,977,057	6,318,035			659,022
Highways and streets		19,572	3,367,620	2,512,142	855,478
Public safety	3,940,340	3,650,445			289,895
Sanitation		15,674			(15,674)
Health	171,000	186,617			(15,617)
Recreation and culture	543,141	495,905			47,236
Social services	514,154	551,841			(37,687)
Community development	263,000	374,881			(111,881)
<b>TOTAL DISBURSEMENTS</b>	<b>14,251,356</b>	<b>13,127,873</b>	<b>3,367,620</b>	<b>2,512,142</b>	<b>855,478</b>
<b>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<b>(1,897,073)</b>	<b>(582,128)</b>	<b>(522,620)</b>	<b>173,855</b>	<b>696,475</b>

CITY OF WEST MEMPHIS, 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		Variance Favorable (Unfavorable)	Street		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 688,250	\$ 341,910	\$ (346,340)	\$ 38,817	\$ 38,817	\$ 38,817
Transfers out	(105,000)	(82,021)	(22,979)	(120,000)	(120,000)	(120,000)
Contribution to airport		(174,159)	(174,159)			
Contribution to Midsouth Community College	725,000	(20,838)	(745,838)			
Contribution from utility		815,705	815,705			
Contribution to riverport		(28,152)	(28,152)			
Loan proceeds		212,675	212,675			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,308,250</b>	<b>1,065,120</b>	<b>(243,130)</b>	<b>(81,183)</b>	<b>(81,183)</b>	<b>(81,183)</b>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(588,823)	482,992	1,071,815	(522,620)	92,672	615,292
FUND BALANCES - JANUARY 1, PREVIOUSLY REPORTED	2,694,329	2,694,329		1,747,245	1,747,245	
Restatement adjustment	24,185	24,185				
FUND BALANCES - JANUARY 1, AS RESTATED	2,718,514	2,718,514		1,747,245	1,747,245	
FUND BALANCES - DECEMBER 31	\$ 2,129,691	\$ 3,201,506	\$ 1,071,815	\$ 1,224,625	\$ 1,839,917	\$ 615,292

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

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CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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

As discussed further in Note 1(B and C), 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 West Memphis 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: Utility and Airport.

**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, Accounts Payable, Delta Regional Authority Grant, Judicial Fine Enhancement and Employee Self-Insured Benefits.

**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: Sanitation, Library, Advertising and Promotion, Narcotics, Park Commission, Auditorium, Community Development, Emergency 911, Metropolitan Planning Organization, Special Funds, Federal Grant Program and District Judge's and Clerk's Retirement Cost.

**Capital Projects Funds** - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds). The General Park Capital Project fund is reported with other funds in the aggregate.

**Debt Service Funds** - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The Capital Improvement Revenue Bond Fund is reported with other funds in the aggregate.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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

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

**Other Funds in the Aggregate** (Continued)

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the entity in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and other funds. The following trust and agency funds are reported with other funds in the aggregate: Firemen's Pension, Policemen's Pension, District Court Civil Fines and Fees, District Court Small Claims Fines and Fees, District Court City Fines and Fees, District Court State Fines and Fees, Police Confiscation, Payroll and Administration of Justice.

**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, payroll taxes withheld, and settlements pending. This regulatory basis differs from accounting principles generally accepted in the United States of America.

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, and treasury bills with an original maturity of three months or less.

**Investments**

Investments are reported at cost.

**Liabilities**

For the purpose of financial reporting, liabilities include payroll taxes withheld but not yet paid and settlements pending. Settlements pending are considered fines, forfeitures and costs that have not been transferred to the appropriate entities.

**Fund Balance** -

1. Reserved Fund Balance indicates that portion of fund balance, which has been legally segregated for specific purposes.
2. 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.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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

**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.

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 except for the Federal Grant Program.

**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.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

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

B. Pension Trust Funds (Continued)

(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	Fair Value
Special Revenue	\$ 100,000	\$ 100,000
Pension Trust	9,023,024	9,677,524
Totals	<u>\$ 9,123,024</u>	<u>\$ 9,777,524</u>

These investments are composed of the following:

	December 31, 2006	
	Reported Amount	Fair Value
Government coupon	\$ 100,000	\$ 100,000
GNMAs	417	417
Equities	4,994,085	5,595,966
Mutual funds	2,189,119	2,246,531
Preferred securities	4,248	6,328
Corporate bonds and notes	789,445	776,865
US government securities	1,045,710	1,051,417
Totals	<u>\$ 9,123,024</u>	<u>\$ 9,777,524</u>

**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 \$ 49,429,421. 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 \$ 12,687,232. The amount of short-term financing obligations was \$ 212, 675 leaving a legal debt margin of \$ 12,474,557.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**NOTE 6: Federal Funds Program Compliance**

The federal funds of the City of West Memphis are currently being audited 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
<u>General</u>	
Delta Regional Authority Grant	\$ 108,539
Employee Self-Insured Benefits	68,345
Judicial Fine Enhancement	30,095
Total General	\$ 206,979
 <u>Street</u>	
	\$ 1,839,917
 <u>Other Funds in the Aggregate</u>	
Special Revenue Funds:	
Sanitation	\$ 774,203
Library	574,319
Advertising and Promotion	1,163,973
Narcotics	571,104
Park Commission	84,710
Auditorium	45,017
Community Development	2,286
Emergency 911	111,073
Metropolitan Planning Organization	9,552
Special Funds	537,365
Federal Grant Program	118
District Judge's and Clerk's Retirement Cost	27,285
Total Special Revenue	3,901,005
Capital Projects Fund - General Park	1,557,556
Debt Service Fund - Capital Improvement Revenue Bond (Park)	54,126
Trust Funds:	
Firemen's Pension	6,684,453
Policemen's Pension	4,698,715
Total Trust	11,383,168
Total Other Funds in the Aggregate	\$ 16,895,855

CITY OF WEST MEMPHIS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

**NOTE 8: Commitments**

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

	December 31, 2006
Long-term debt	\$ 4,307,891
Construction contracts	1,281,560
Total Commitments	\$ 5,589,451

Long-Term Debt

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

	December 31, 2006
City of West Memphis, Arkansas, Capital Improvement Revenue Bond Series 2006, due in yearly installments of various amounts through June 2025, interest from 3.75% - 4.60%. Payments are to be made from the 2006 Park and Recreation Improvement Revenue Bond Fund.	\$ 1,745,000
Note payable to Fidelity National Bank dated June 1, 2006, 4.250% interest to purchase a 2005 Pierce fire truck, five annual principal payments of \$42,540, beginning June 1, 2007. Payments are to be made from the General Fund.	212,675
Arkansas District Judge Retirement System unfunded accrued liabilities - Payments are to be made from the Municipal Judge's and Clerk's Retirement Cost Fund for up to a thirty-year period. See Note 14.	87,809
Compensated Absences	2,262,407
Total Long-Term Debt	\$ 4,307,891

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

CITY OF WEST MEMPHIS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2006

**NOTE 8: Commitments (Continued)**

Debt Service Requirements to Maturity

The City is obligated for the following amounts at December 31, 2006:

<u>Years Ending December 31,</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2007	\$ 138,316	\$ 51,580	\$ 189,896
2008	135,879	49,772	185,651
2009	138,330	47,979	186,309
2010	135,670	46,156	181,826
2011	137,878	44,348	182,226
2012 through 2016	676,901		676,901
2017 through 2021	669,898		669,898
2022 through 2025	536,111		536,111
Total Obligations	<u>2,568,983</u>	<u>239,835</u>	<u>2,808,818</u>
Less Interest	<u>823,983</u>	<u>27,160</u>	<u>851,143</u>
Total Principal	<u>\$ 1,745,000</u>	<u>\$ 212,675</u>	<u>\$ 1,957,675</u>

Construction Contracts

The City was contractually obligated for the following construction contracts at December 31, 2006:

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance December 31, 2006</u>
Park Improvements	April 1, 2008	<u>\$ 1,281,560</u>

**NOTE 9: Prior Year Restatement**

The General Fund fund balance has been restated \$24,185 to include the Employee Self-Insured Benefits Fund and to exclude the Administration of Justice Fund which had balances of \$25,927 and \$1,742, respectively at December 31, 2005. The Administration of Justice Fund is included in Other Funds in the Aggregate (Agency) for 2006.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**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. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

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

**Workers' Compensation** - This program provides statutory benefits for losses incurred by municipal officials, employees and volunteer fire fighters while performing work for the municipality. Rates for 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.

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

**Municipal 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.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**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; all forfeitures and fines imposed upon any member of the police department by way of discipline; all money given or donated to such fund; all money deducted from the salary of any member of the police department on account of absence or loss of time; all rewards paid for any purpose 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.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**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

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 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.

CITY OF WEST MEMPHIS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

**NOTE 14: Arkansas District Judge Retirement System (Continued)**

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: Southland Greyhound Park Breakage**

Southland Greyhound Park Breakage consists of the City's share of the odd cents or breaks after distribution of each pari-mutuel pool. In accordance with Ark. Code Ann. §23-111-509, breakage is computed as the amount of odd cents remaining in each pari-mutuel pool after redistributions are made in a sum equal to the next lowest multiple of ten cents (\$.10). The City receives two-thirds (2/3) of the total breakage.

**NOTE 16: Related Party Transactions**

- A. The Utility Department is one of a number of departments and/or funds of the City established for a specific purpose. The City provides general services such as personnel, data processing, financial administration and legal services to the Department. The cost associated with providing these services is charged to the Department by the City. The amount paid by the Department in 2006 was \$815,705. The City also charges the Department 5% of utility sales in lieu of franchise taxes. The amount paid by the Department in 2006 was \$1,513,168.
- B. As a convenience to customers, the Utility Department includes the fees of city-provided garbage collection in its monthly customer billings. These fees are remitted to the Sanitation Fund monthly.
- C. The City purchased supplies totaling \$38,353 from Delta Office Supply during the year which is owned and operated by the City Treasurer Frank Martin. City Ordinance No. 1362 allows such purchases.

**NOTE 17: Nonuniformed Employees Pension Plan (A Defined Contribution Plan)**

On January 1, 1977, the City established a defined contribution pension plan for all nonuniformed employees and has contracted with a private insurance carrier who maintains an account for the City. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The contribution plan requires the City to contribute to the insurance carrier an amount equal to five percent (5%) of the employees' base salary. The City's contributions (and interest allocated to the employees' account) are vested at a rate of ten percent (10%) per year until fully vested after ten (10) years of service. Eligibility commences one year from date of employment. City contributions for, and interest forfeited by, employees who leave employment before being fully vested are used to reduce the City's future period contribution requirements. Interest earned is credited to each employee's account quarterly. Employees are entitled only to the funds deposited by them and on their behalf.

**NOTE 18: Employee Self-Insured Benefits**

The City participates in an Employee Self-Insured Benefit plan administered by Greatwest Healthcare Insurance Company. The City is required to maintain a benefit plan account which will be sufficient at all times to fund plan benefits and plan related expenses. As of December 31, 2006, the balance in this account was \$68,345 and is reflected in the financial statements as part of the General Fund's reserved fund balance. Claims paid during 2006 from the account totaled \$1,276,338.

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

Schedule 1

	<u>December 31, 2006</u>
Land	\$ 2,519,412
Buildings	6,045,530
Equipment	<u>9,784,423</u>
Total	<u><u>\$ 18,349,365</u></u>