

**City of Shannon Hills, Arkansas**

**General Purpose Financial Statements,  
Supplemental Information and Other Reports**

**December 31, 1999**

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF SHANNON HILLS, ARKANSAS  
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# Arkansas

JONATHAN S. "JON" FITCH, SENATOR  
CHAIRMAN

DANNY W. FERGUSON, REPRESENTATIVE  
VICE CHAIRMAN

CHARLES L. ROBINSON, CPA, CFE  
LEGISLATIVE AUDITOR

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

City of Shannon Hills, Arkansas Officials and Council Members  
Legislative Joint Auditing Committee

We have audited the accompanying general purpose financial statements that do not include a statement of revenues, expenditures, and changes in fund balances - budget and actual, for the general fund and special revenue fund type of the City of Shannon Hills, Arkansas, as of and for the year ended December 31, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the financial information for the Water, Sewer and Fire Department Funds and do not disclose certain required information concerning deposits and investments which should be included in order to conform with generally accepted accounting principles. Because of the departure from generally accepted accounting principles identified above, as of December 31, 1999, the Proprietary Fund Type (Water, Sewer and Fire Department Funds) assets, liabilities, revenues and expenses for 1999 would have increased by \$1,717,188.69, \$93,284.75, \$405,112.39 and \$364,156.93, respectively.


The general purpose financial statements also do not conform with generally accepted accounting principles to the extent that the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General And Special Revenue Funds for the year 1999 is not presented as the budget adopted by the City Council was not sufficiently detailed to provide a meaningful comparison between budgeted and actual data. Presentation of this statement is required by generally accepted accounting principles.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the general purpose financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of the City of Shannon Hills, Arkansas, as of December 31, 1999, or the results of its operations or the cash flows of its proprietary fund types for the year then ended.

In accordance with Government Auditing Standards, we have also issued our report dated April 17, 2000 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The Schedule of Funding Progress listed in the table of contents as Schedules 1 and 3 and the Schedule of Contributions from the Employer and Other Contributing Entities listed as Schedule 2 are not a required part of the general purpose financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

DIVISION OF LEGISLATIVE AUDIT

  
Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
April 17, 2000  
LOM216999



# Arkansas

JONATHAN S. "JON" FITCH, SENATOR  
CHAIRMAN

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VICE CHAIRMAN

CHARLES L. ROBINSON, CPA, CFE  
LEGISLATIVE AUDITOR

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

City of Shannon Hills, Arkansas Officials and Council Members  
Legislative Joint Auditing Committee

We have audited the general purpose financial statements of the City of Shannon Hills, Arkansas, as of and for the year ended December 31, 1999, and have issued our report thereon dated April 17, 2000. In our report, our opinion was adverse because of the effects on the financial statements of not including all financial information of the reporting entity. Also, the required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

##### A. Governmental Auditing Standards

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

##### B. State Laws

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

#### Internal Control Over Financial Reporting

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

The City had inadequate control over cash transactions because of insufficient segregation of duties due to a limited number of personnel.

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

#### Other Management Issues

The commentary contained in this section relates to the following officials that held office during 1999:

Mayor: Larence Davis  
Recorder/Treasurer: Marilyn Moore (1-1-99 - 11-2-99); Leonard Holmes (11-2-99 - 12-31-99)  
City Court Clerk: Wandy Denby (1-1-99 - 10-26-99)  
Police Chief: Richard Vinyard

Our audit procedures indicated that the Office of the **Police Chief** was in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the Offices of the **Mayor, Recorder/Treasurer** and **City Court Clerk** and are cited below:

The **Mayor's Office** did not project the anticipated revenues for the year for the City General and Street Fund as part of preparing the 1999 annual budget; the City did not adopt an annual budget until Ordinance No. 99-06 was passed on June 11, 1999; several checks issued were classified with expenditure codes which were not included in the adopted budget (some checks were not coded at all) and numerous expenditures of over \$200.00 requiring dual signatures were signed by the Mayor only. As a result, these expenditures appear to have been made without approval of the City Council.

The **Recorder/Treasurer's Office's** cash receipt and disbursement journals were not maintained in a manner whereby the monthly revenue and expenditure classifications could be totaled and reconciled to the bank statements; the Recorder/Treasurer did not prepare a monthly report to the City Council informing them of the financial position and budget status of the City, resulting in inadequate information, with which the City Council and Mayor can make budgeting decisions; no listing of the City's land, buildings and equipment was maintained by the Recorder/Treasurer's Office ensuring accountability for these fixed assets; and the City's six-month financial statements were not published for the period covering the last six months of 1999.

The **City Court Clerk's Office** did not properly maintain the cash receipts and disbursements journal after October of 1999. Also, bank reconciliations were not prepared after the month of October, 1999, resulting in the ending bank balance not being identified with receipts for cases not yet processed through Court. Completed ticket books were not filed with the Court Clerk and could not be reconciled to the tickets reflected on the arrest reports, thus ensuring that all tickets issued were processed through the court system.

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

DIVISION OF LEGISLATIVE AUDIT

  
David J. Kraft, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
April 17, 2000

CITY OF SHANNON HILLS, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUP  
 DECEMBER 31, 1999

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types Trust and Agency	Account Group General Fixed Assets	Totals (Memorandum Only) December 31, 1999
	General	Special Revenue			
ASSETS					
Cash and cash equivalents	\$ 47,025.79	\$ 106,292.66	\$ 47,354.34		\$ 200,672.79
Receivables:					
Taxes	24,560.65	92.76			24,653.41
Land and buildings				\$ 59,515.42	59,515.42
Equipment				55,932.50	55,932.50
 TOTAL ASSETS	 \$ 71,586.44	 \$ 106,385.42	 \$ 47,354.34	 \$ 115,447.92	 \$ 340,774.12
 LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 3,985.22	\$ 548.44			\$ 4,533.66
Payroll taxes payable	202.85	91.80			294.65
Payroll payable	3,690.72	554.10			4,244.82
Bonds, fines and costs pending			\$ 3,335.64		3,335.64
Total Liabilities	7,878.79	1,194.34	3,335.64		12,408.77
 Fund Equity:					
Investment in general fixed assets				\$ 115,447.92	115,447.92
Fund balances:					
Reserved:					
Employees' pension benefits			44,018.70		44,018.70
Unreserved:					
Undesignated	63,707.65	105,191.08			168,898.73
Total Fund Equity	63,707.65	105,191.08	44,018.70	115,447.92	328,365.35
 TOTAL LIABILITIES AND FUND EQUITY	 \$ 71,586.44	 \$ 106,385.42	 \$ 47,354.34	 \$ 115,447.92	 \$ 340,774.12

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

CITY OF SHANNON HILLS, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 1999

	General	Special Revenue	Totals (Memorandum Only) Year Ended December 31, 1999
REVENUES			
Intergovernmental revenues - state	\$ 33,867.11	\$ 104,336.60	\$ 138,203.71
Property taxes	23,094.35	11,076.80	34,171.15
Franchise taxes	60,486.75		60,486.75
Sales taxes	71,515.78		71,515.78
Fines, forfeitures and costs	30,881.89		30,881.89
Investment income	2,042.42	2,419.29	4,461.71
Local permits and fees	21,870.00		21,870.00
Other	5,726.04	5,136.30	10,862.34
<b>TOTAL REVENUES</b>	<b>249,484.34</b>	<b>122,968.99</b>	<b>372,453.33</b>
EXPENDITURES			
Current:			
General government	254,495.90		254,495.90
Law enforcement	30,031.17	8,309.21	38,340.38
Highways and streets		74,056.13	74,056.13
Public safety		2,411.00	2,411.00
Total Current	284,527.07	84,776.34	369,303.41
Capital outlay	27,854.33		27,854.33
<b>TOTAL EXPENDITURES</b>	<b>312,381.40</b>	<b>84,776.34</b>	<b>397,157.74</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(62,897.06)</b>	<b>38,192.65</b>	<b>(24,704.41)</b>

CITY OF SHANNON HILLS, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 1999

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only) Year Ended December 31, 1999</u>
OTHER FINANCING SOURCES (USES)			
Contribution from water department	\$ 15,146.76		\$ 15,146.76
Contribution to water department		<u>(1,554.46)</u>	<u>(1,554.46)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>15,146.76</u>	<u>(1,554.46)</u>	<u>13,592.30</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(47,750.30)</u>	<u>36,638.19</u>	<u>(11,112.11)</u>
FUND BALANCES - JANUARY 1, AS PREVIOUSLY REPORTED	94,437.52	97,715.98	192,153.50
Restatement adjustment	<u>17,020.43</u>	<u>(29,163.09)</u>	<u>(12,142.66)</u>
FUND BALANCES - JANUARY 1, AS RESTATED	<u>111,457.95</u>	<u>68,552.89</u>	<u>180,010.84</u>
FUND BALANCES - DECEMBER 31	<u>\$ 63,707.65</u>	<u>\$ 105,191.08</u>	<u>\$ 168,898.73</u>

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

CITY OF SHANNON HILLS, ARKANSAS  
STATEMENT OF PLAN NET ASSETS - PENSION TRUST FUND  
AS OF DECEMBER 31, 1999

Exhibit C

	<u>Firemen's Pension</u>
ASSETS	
Cash and cash equivalents	\$ 44,018.70
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	<u>\$ 44,018.70</u>

(A schedule of funding progress for the Firemen's Pension plan is presented as Schedule 1.)

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

CITY OF SHANNON HILLS, ARKANSAS  
 STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION TRUST FUND  
 FOR THE YEAR ENDED DECEMBER 31, 1999

Exhibit D

	<u>Firemen's Pension</u>
ADDITIONS	
Contributions:	
Other sources - state funds	\$ <u>628.52</u>
Investment income:	
Interest	37.13
Dividends	<u>1,898.38</u>
Total investment income	<u>1,935.51</u>
TOTAL ADDITIONS	<u>2,564.03</u>
DEDUCTIONS	
Benefits	4,080.00
Administrative expense	<u>77.50</u>
TOTAL DEDUCTIONS	<u>4,157.50</u>
NET INCREASE	(1,593.47)
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	
BEGINNING OF YEAR	<u>45,612.17</u>
END OF YEAR	<u>\$ 44,018.70</u>

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

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999

NOTE 1: Summary of Significant Accounting Policies

The accounting methods and procedures adopted by the City conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the City's General Purpose Financial Statements.

A. Financial Reporting Entity

The City of Shannon Hills was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government).

B. Basis of Presentation - 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 all related liabilities and residual equities or 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. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

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.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Fiduciary Funds

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. These include Pension Trust Funds and Agency Funds.

Account Group

General Fixed Assets - This group of accounts is established to account for all fixed assets of the entity, other than those accounted for in the proprietary funds.

C. Basis of Accounting

Basis of Accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Exceptions to the general rule include: (1) principal and interest on general long-term debt which is recognized when due and (2) prepaid expenses, which are not recorded. The accrual basis of accounting is followed in all Pension Trust Funds. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred, except for pension trust fund liabilities for benefits and refunds which are recognized when due and payable in accordance with the terms of the plan.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. General Fixed Assets

General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets, excluding infrastructure assets, are capitalized at cost in the general fixed assets group of accounts. Gifts or contributions or general fixed assets purchased at nominal sums are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Infrastructure assets, such as bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other elements of public domain are not reported in the general fixed assets group of accounts. Such assets are immovable and of value only to the City. No depreciation has been provided on general fixed assets.

E. Property Taxes

The accompanying financial statements do not reflect any provision for property taxes which were levied in November of our audit year. A lien attaches to the real property in January and on personal property in June of our audit year. These taxes are collectible beginning the first business day of March of the year subsequent to our audit year. However, such taxes are not considered delinquent until after October 10 of the year subsequent to our audit. Taxes levied in November of our audit year are not available as a resource that can be used to finance current year operations and therefore, are not susceptible to accrual.

F. Receivables

Receivables primarily consist of Municipal Court fines, property taxes and sales taxes collected by another agency but not yet remitted to the City. Interest is recorded on the accrual basis in the Pension Trust Funds. Since few governmental fund revenues are susceptible to accrual prior to receipt, most taxes, licenses, fees, permits and similar revenues are recognized on the cash basis.

G. Inventory

The cost of governmental fund type inventories is recorded as an expenditure when purchased rather than when consumed (purchase method). The City had no significant inventories in the governmental fund types.

H. Fund Equity

Fund Balance -

1. Reserved Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes.
2. Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

I. Budgetary Controls

1. Legal Requirements

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

- a. Prior to December 1, the Mayor submits to the City Council a proposed operating budget for the General and Special Revenue Funds for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF SHANNON HILLS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 1999

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Budgetary Controls (Continued)

1. Legal Requirements (Continued)

- 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 revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the Council during the year.

The City did not comply with the above requirements in that anticipated revenues were not projected and made a part of the City's budget. Also, the City budget was not adopted until June 11, 1999.

2. Accounting

The City prepared an annual budget on the modified accrual basis for the General Fund and all the Special Revenue Funds except for the Local Police and Fire Retirement System Fund. Formal budgetary policies are not employed for the Fiduciary Fund Types.

The following individual fund had an excess of actual expenditures over budget for the year ended December 31, 1999:

<u>Fund</u>	<u>December 31, 1999</u>		
	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General	\$ 290,788.00	\$ 312,381.40	\$ (21,593.40)

J. Cash Equivalents

Cash equivalents are considered to be all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased. The City made investments in the Arkansas Local Government Cash Management Trust which is an investment pool. The investments are considered cash equivalents and represent \$136,933.32 of the total cash and cash equivalents on Exhibit A.

K. Encumbrances

The City does not utilize an encumbrance system to record outstanding purchase commitments that have not yet resulted in liabilities.

NOTE 2: Memorandum Totals

Combined financial statements of fund types and account groups have a "total" column that aggregates the columnar statements by fund type and account group. The total column is captioned "Memorandum Only" because the total column on a combined financial statement is not comparable to a consolidation.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999

NOTE 3: Public Fund Deposits and Investments

The accompanying notes to the financial statements do not include the following credit risk information required by Governmental Accounting Standards Board Statement No. 3 pertaining to the carrying amount of total deposits and investments:

A. Information disclosing whether deposits are:

- (1) Insured or collateralized with securities held by the entity or its agent in the entity's name;
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
- (3) Uncollateralized.

B. Information disclosing whether investments are:

- (1) Insured or registered, or securities held by the entity or its agent in the entity's name;
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Information concerning the extent of insurance coverage was not compiled by the entity nor readily available from their records.

NOTE 4: 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 Fund

Firemen's Pensions

State law provides certain restrictions for firemen's pension trust funds. If the total assets of the firemen's pension trust funds are less than one hundred thousand dollars (\$100,000), the funds may be deposited or invested as noted in the preceding paragraph and may also include the following: deposits in federally insured savings and loans located in the State 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. If the total assets of the firemen's pension trust funds exceed one hundred thousand dollars (\$100,000), the fund may employ a professional investment counselor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

NOTE 5: Fund Presentation

The Special Revenue Fund heading as it appears in the financial statements includes the following funds: Street and Local Police and Fire Retirement System.

CITY OF SHANNON HILLS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 1999

NOTE 6: Changes in General Fixed Assets

	Balance January 1, 1999 as Previously Reported	Restatement Adjustment	Balance January 1, 1999 as Restated	Additions	Deletions	Balance December 31, 1999
Land and buildings	\$ 59,515.42		\$ 59,515.42			\$ 59,515.42
Equipment	109,068.59	\$ (80,990.42)	28,078.17	\$ 27,854.33		55,932.50
Totals	<u>\$ 168,584.01</u>	<u>\$ (80,990.42)</u>	<u>\$ 87,593.59</u>	<u>\$ 27,854.33</u>	<u>\$ .00</u>	<u>\$ 115,447.92</u>

The General Fixed Assets account group was restated at January 1, 1999 in the amount of \$80,990.42 to agree with the City's inventory taken on April 7, 2000. The City did not maintain an inventory with control totals prior to the aforementioned date.

NOTE 7: Compensated Absences

Compensated absences do vest or accumulate. Accruals for compensated absences have not been reflected in the accompanying financial statements. The amount accumulated was not material.

NOTE 8: Legal Debt Limit - Tax Secured Bond Issues

The City is subject to a constitutional limitation for bonded indebtedness equal to twenty percent (20%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 1999, the legal debt limit for the City was \$1,453,432.00. There were no tax secured bond issues.

NOTE 9: Arkansas Public Employees Retirement System

**Plan Description.** The City contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan that covers municipal employees whose municipalities have elected coverage under this System. PERS 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 Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

**Funding Policy.** PERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% 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. The current employer rate is 10.02% of annual covered payroll. The City's contributions to PERS for the years ending December 31, 1999 and 1998 were \$17,152.33 and \$16,295.16, respectively, equal to the required contributions for each year.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999

NOTE 10: 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. At December 31, 1997, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	<u>3</u> *
Terminated members entitled to but not yet receiving benefits	<u>0</u> *
Active members	<u>1</u> *

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.

Summary of Significant Accounting Policies

**Basis of Accounting.** The Firemen's Pension and Relief Plan financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**Method Used to Value Investments.** Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

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 firemen. 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.

Annual Pension Cost and Net Pension Obligation

The annual pension cost for the plan for the current year is \$556.00. The employer's contribution to the plan for the current year is \$ .00, and the contributions from other contributing entities are \$629.00. Any difference between the annual pension cost and the employer's contributions and the contributions from other contributing entities has not been reflected in the City's general purpose financial statements because the City is not obligated to pay the statutorily required benefits if the plan's assets are not sufficient.

\* Information obtained from actuarial report.

CITY OF SHANNON HILLS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 1999

NOTE 11: 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:

1. Paid service not covered by Social Security: 6% of gross pay
2. Paid service also covered by Social Security: no employee contribution
3. Volunteer fire service: no employee contribution

The City is required to contribute at an actuarially determined rate; the current rate is 7.66% of annual covered payroll for paid service police and \$13.72 per month, per member for volunteer service fire. 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.

Annual Pension Cost

For 1999, the City's annual pension cost was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 1997 actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.2% to 9.0% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 5%. The actuarial value of assets was equal to reported book value, adjusted to partially recognize the difference between book value and market value. Changes in accumulated unrealized appreciation/depreciation are spread over five (5) year periods. The City's unfunded actuarial accrued liability is being amortized as a level percent of payroll on an open basis. The remaining amortization period was 30 years.

Trend Information for LOPFI

<u>Paid Service Police</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Annual Pension Cost (APC)	\$ 7,809	\$ 6,954	\$ 4,663
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0

CITY OF SHANNON HILLS, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 1999

NOTE 11: Local Police and Fire Retirement System (LOPFI) (Continued)  
 (A Defined Benefit Pension Plan)

Trend Information for LOPFI

<u>Volunteer Service Fire</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Annual Pension Cost (APC)	\$ 2,387	\$ 2,540	\$ 2,300
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0

NOTE 12: Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular full-time general employees of the City, permits participants to defer a portion of their salaries until future years. The deferred compensation is not available to the participants until termination, retirement, death or unforeseeable emergency.

The City deposits all amounts of compensation deferred under the plan with PEPSCO which serves as custodian of the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. Prior to recent legislative changes, these amounts were solely the property and rights of the City subject only to the claims of the City's general creditors. At December 31, 1999, as a result of the legislative changes, the deferred compensation investments are no longer reported in the City's financial statements as an agency fund.

NOTE 13: Prior Year Restatement

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Fund Types was restated at January 1, 1999 to adjust for receivables recorded in 1998 in error. The adjustments to fund balances of the General Fund and Special Revenue Funds at January 1, 1999 were \$17,020.43 and (\$29,163.09), respectively.

CITY OF SHANNON HILLS, ARKANSAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 FIREMEN'S PENSION AND RELIEF PLAN

(Unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll {(b-a)/c}</u>
12/31/97	\$ 46,124	\$ 47,968	\$ 1,844	96%	\$ 0	0%

Assets are valued at market beginning 12/31/97.

CITY OF SHANNON HILLS, ARKANSAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES  
 FIREMEN'S PENSION AND RELIEF PLAN

(Unaudited)

<u>Year Ended December 31,</u>	Employer Contributions		Other Entities Contributions	
	(a) Annual Required Contribution (ARC)	(B + A) Percentage Contributed	Required Contribution	Percentage Contributed
1999	\$ 556.00	0%	\$ 629.00	100%

CITY OF SHANNON HILLS, ARKANSAS  
 NOTE TO THE SCHEDULE OF FUNDING PROGRESS  
 AND SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Firemen's Pension and Relief Plan</u>
Valuation date	12/31/97
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6%
Projected salary increases*	4.2-8.0%
*Includes inflation at	4%
Cost-of-living adjustments	None

CITY OF SHANNON HILLS, ARKANSAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 LOCAL POLICE AND FIRE RETIREMENT PLAN

(Unaudited)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
<b>Paid Service Police</b>						
12/31/98	\$ 67,559.00	\$ 72,608.00	\$ 5,049.00	93%	\$ 95,376.00	5%
12/31/97	53,110.00	33,967.00	(19,143.00)	156%	51,029.00	(38)%
12/31/96	42,809.00	29,344.00	(13,465.00)	146%	66,112.00	(20)%
<b>Volunteer Service Fire</b>						
12/31/98	32,929.00	27,165.00	(5,764.00)	121%	N/A	N/A
12/31/97	26,437.00	21,002.00	(5,435.00)	126%	N/A	N/A
12/31/96	21,276.00	23,039.00	1,763.00	92%	N/A	N/A