

**City of Shannon Hills, Arkansas**

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

**December 31, 2000**

LEGISLATIVE JOINT AUDITING COMMITTEE

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CITY OF SHANNON HILLS, ARKANSAS  
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Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

City of 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 revenue, expenditures, and changes in fund balances – budget and actual, for the general fund and special revenue fund types of the City of Shannon Hills, Arkansas, as of and for the year ended December 31, 2000, 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 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 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, 2000, the Proprietary Fund Type (Water, Sewer and Fire Department Funds) assets, liabilities, revenues and expenses for 2000 would have increased by \$1,807,361, \$88,575, \$469,057 and \$374,175, 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 2000 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 accounting principles generally accepted in the United States of America, the financial position of the City of Shannon Hills, Arkansas, as of December 31, 2000, 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 March 29, 2001 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
March 29, 2001  
LOM216900

Sen. Kevin A. Smith  
Senate Co-Chair  
Rep. Danny W. Ferguson  
House Co-Chair  
Sen. Henry "Hank" Wilkins, IV  
Senate Co-Vice Chair  
Rep. Tommy Roebuck  
House Co-Vice Chair

# Arkansas



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 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 types of the City of Shannon Hills, Arkansas, as of and for the year ended December 31, 2000 and have issued our report thereon dated March 29, 2001. 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 and the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds. 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's 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.

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 2000:

Mayor: Larence Davis  
Recorder/Treasurer: Leonard Holmes, Frances Romine  
City Court Clerk: Jean Herald  
Police Chief: Rick Vinyard

Our audit procedures indicated that the office of **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 **Mayor**, **Recorder/Treasurer** and **City Court Clerk** and are cited below:

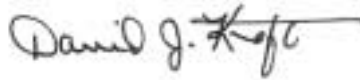
The **Mayor's** Office again did not project the anticipated revenues for the City General and Street Fund as a part of preparing the 2000 budget, thereby impairing the City Council's ability to adequately plan for and fund the expenditures anticipated in the City's budget.

Cash receipt and disbursement journals again were not adequately maintained by the **Recorder/Treasurer** and the fixed assets listing did not reflect 2000 year additions in the amount of \$44,531. This resulted in inaccurate financial reports.

The **City Court Clerk** again did not identify the ending bank balance as to cases receipted and deposited but not yet processed through the City Court. This precluded accurate settlements of court cases

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

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
March 29, 2001

CITY OF SHANNON HILLS, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND ACCOUNT GROUP  
 DECEMBER 31, 2000

Exhibit A

	Governmental Fund Types		Fiduciary Fund Types	Account Group	Totals (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	December 31, 2000
<b>ASSETS</b>					
Cash and cash equivalents	\$ 64,929	\$ 94,706	\$ 45,770		\$ 205,405
Receivables:					
Taxes	27,569	1,927			29,496
Interfund receivables	816				816
Land and buildings				\$ 59,515	59,515
Equipment				100,463	100,463
TOTAL ASSETS	\$ 93,314	\$ 96,633	\$ 45,770	\$ 159,978	\$ 395,695
<b>LIABILITIES AND FUND EQUITY</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 856				\$ 856
Salaries payable	5,423	\$ 676			6,099
Payroll taxes payable	2,000	275			2,275
Bonds, fines and costs pending			\$ 2,282		2,282
Due to other agencies			107		107
Interfund payables			816		816
Total Liabilities	8,279	951	3,205		12,435
<b>Fund Equity:</b>					
Investment in general fixed assets				\$ 159,978	159,978
<b>Fund balances:</b>					
<b>Reserved:</b>					
Employees' pension benefits			42,565		42,565
<b>Unreserved:</b>					
Undesignated	85,035	95,682			180,717
Total Fund Equity	85,035	95,682	42,565	159,978	383,260
TOTAL LIABILITIES AND FUND EQUITY	\$ 93,314	\$ 96,633	\$ 45,770	\$ 159,978	\$ 395,695

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, 2000

Exhibit B

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Year Ended December 31, 2000
REVENUES			
Intergovernmental revenues - state	\$ 33,172	\$ 112,937	\$ 146,109
Property taxes	26,814	12,298	39,112
Franchise taxes	70,278		70,278
Sales taxes	63,259		63,259
Fines, forfeitures, and costs	30,369		30,369
Investment income	2,533	3,101	5,634
Local permits and fees	17,726		17,726
Other	21,541	632	22,173
	<u>265,692</u>	<u>128,968</u>	<u>394,660</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
General government	165,098		165,098
Law enforcement	83,983	6,748	90,731
Highways and streets		71,939	71,939
Public safety		2,771	2,771
Total Current	<u>249,081</u>	<u>81,458</u>	<u>330,539</u>
Capital outlay	284	44,247	44,531
	<u>249,365</u>	<u>125,705</u>	<u>375,070</u>
TOTAL EXPENDITURES			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,327</u>	<u>3,263</u>	<u>19,590</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	5,000		5,000
Transfers out		(5,000)	(5,000)
Contribution to water department		(7,772)	(7,772)
	<u>5,000</u>	<u>(12,772)</u>	<u>(7,772)</u>
TOTAL OTHER FINANCING SOURCES (USES)			

CITY OF SHANNON HILLS, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES  
 FOR THE YEAR ENDED DECEMBER 31, 2000

Exhibit B

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Year Ended December 31, 2000
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 21,327	\$ (9,509)	\$ 11,818
FUND BALANCES - JANUARY 1	63,708	105,191	168,899
FUND BALANCES - DECEMBER 31	\$ 85,035	\$ 95,682	\$ 180,717

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, 2000

Exhibit C

	<u>Firemen's Pension Total December 31, 2000</u>
ASSETS	
Cash and cash equivalents	<u>\$ 42,565</u>
 TOTAL ASSETS	 <u>42,565</u>
 FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS	 <u>\$ 42,565</u>

(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, 2000

Exhibit D

	Firemen's Pension
	Year Ended December 31, 2000
ADDITIONS	
Contributions:	
Other sources - state funds	\$ 534
Investment Income:	
Interest	44
Dividends	2,272
Net Investment Income	2,316
TOTAL ADDITIONS	2,850
DEDUCTIONS	
Benefits	4,080
Administrative expense	224
TOTAL DEDUCTIONS	4,304
NET INCREASE	(1,454)
FUND BALANCES RESERVED FOR EMPLOYEES' PENSION BENEFITS	
BEGINNING OF YEAR	44,019
END OF YEAR	\$ 42,565

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

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

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, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. 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. Interest incurred during construction is not capitalized.

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, franchise 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, licenses, fees, permits, other taxes 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.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.
- 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.

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.

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 \$125,885 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, 2000

NOTE 3: Public Fund Deposits

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:

Information disclosing whether deposits are:

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

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

(1) 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.

(2) Investments

The funds may be deposited or invested as noted in Note 4(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 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, 2000

NOTE 6: Interfund Balances

Individual fund interfund receivable and payable balances are as follows:

Fund	December 31, 2000	
	Interfund Receivables	Interfund Payables
General Fund	\$ 816	
Agency Fund: City Court		\$ 816
Totals	<u>\$ 816</u>	<u>\$ 816</u>

NOTE 7: Changes in General Fixed Assets:

	Balance January 1, 2000	Additions	Deletions	Balance December 31, 2000
Land and buildings	\$ 59,515			\$ 59,515
Equipment	55,932	\$ 44,531		100,463
Totals	<u>\$ 115,447</u>	<u>\$ 44,531</u>	<u>\$ 0</u>	<u>\$ 159,978</u>

NOTE 8: Compensated Absences

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

NOTE 9: 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, 2000, the legal debt limit for the City was \$1,696,086. There were no tax secured bond issues.

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 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.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

NOTE 10: Risk Management (Continued)

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

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

The City participates in the Central Arkansas Risk Management Association, an unincorporated association providing joint risk retention among participating entities, in the following areas:

General Liability – Entities assert and rely upon Tort immunity as provided for in Ark. Code Ann. 21-9-301. Where statutory immunity does not apply, the program provides \$250,000 CSL/ per claim, bodily injury and property damage, inclusive of expenses and cost of defense.

Automobile Liability – This program covers any auto/all owned autos, all hired autos, non-owned autos, auto physical damage at actual cash value and actual cash value comprehensive and collision. There is a \$1,000 deductible for the collision coverage. 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.

Miscellaneous Contractors Equipment – Program limit of \$100,000 with each and every loss.

Property – Program limit of \$50,000 per building per location. Excess limits are provided up to the actual replacement cost of the property as listed on the Statement of Values totaling \$1,124,538.

The City shall pay into the program each year a premium established by the program based on the equipment schedules and statement of values of covered property owned by the City.

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 \$250,000 per occurrence. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$1,000 deductible per occurrence.

NOTE 11: Firemen's Pension and Relief Plan

Plan Description

The Firemen's Pension and Relief Plan is a single-employer defined benefit pension plan that covers municipal firemen employed prior to January 1, 1983. The plan, administered by the City, provides retirement, disability and survivor benefits. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. State law does provide that upon actuarial soundness of the plan, the Board may increase retirement benefits.

CITY OF SHANNON HILLS, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2000

NOTE 11: Firemen's Pension and Relief Plan (Continued)

Plan Description (Continued)

At December 31, 1999, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	4*
DROP Participants	0*
Terminated members entitled to but not yet receiving benefits	0*
Active members	0*

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 \$1,427. The employer's contribution to the plan for the current year is \$.00 and the contributions from other contributing entities are \$534. 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, 2000

NOTE 12: 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, 2000

NOTE 12: Local Police and Fire Retirement System (LOPFI)  
 (A Defined Benefit Pension Plan) (Continued)

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 13: 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 7% of annual covered payroll. The City's contributions to PERS for the years ending December 31, 2000, 1999 and 1998 were \$11,081, \$17,152 and \$16,295, respectively, equal to the required contributions for each year.

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

Schedule 1

(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>
12/31/99	\$ 44,019	\$ 50,207	\$ 6,188	88%
12/31/97	\$ 46,124	\$ 47,968	\$ 1,844	96%

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

Schedule 2

(Unaudited)

<u>Year Ended December 31</u>	<u>Employer Contributions</u>		<u>Other Entities Contributions</u>	
	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2000	\$ 1,427	0%	\$ 534	100%
1999	556	0%	629	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 valuations follows:

	<u>Firemen's Pension and Relief Plan</u>
Valuation date	12/31/99
Actuarial cost method	Entry age normal
Amortization method	Level percent closed
Remaining amortization period	8 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6%
Projected salary increase*	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

Schedule 3

(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	\$ 72,608	\$ 5,049	93%	\$95,376	5%
12/31/97	\$ 53,110	\$ 33,967	\$ (19,143)	156%	\$51,029	-38%
12/31/96	\$ 42,809	\$ 29,344	\$ (13,465)	146%	\$66,112	-20%
<b>Volunteer Service Fire</b>						
12/31/98	\$ 32,929	\$ 27,165	\$ (5,764)	121%	N/A	N/A
12/31/97	\$ 26,437	\$ 21,002	\$ (5,435)	126%	N/A	N/A
12/31/96	\$ 21,276	\$ 23,039	\$ 1,763	92%	N/A	N/A