

City of Cabot, Arkansas

**Basic Financial Statements (Modified Accrual Basis),
Supplementary Information and Other Reports**

December 31, 2003

LEGISLATIVE JOINT AUDITING COMMITTEE



CITY OF CABOT, ARKANSAS
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

Independent Auditor's Report
Report on Compliance, Internal Control Over Financial Reporting and Other Management Issues

BASIC FINANCIAL STATEMENTS

	<u>Exhibit</u>
Statement of Net Assets – Modified Accrual Basis	A
Statement of Activities – Modified Accrual Basis	B
Balance Sheet – Governmental Funds – Modified Accrual Basis	C
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Accrual Basis	D
Statement of Fiduciary Net Assets – Fiduciary Funds – Modified Accrual Basis	E
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – Modified Accrual Basis	F
Notes to Financial Statements	

REQUIRED SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Budgetary Comparison Schedule – General and Street Funds – Modified Accrual Basis (Unaudited)	1
Notes to Budgetary Comparison Schedule	
Schedule of Funding Progress – Firemen's Pension and Relief Plan (Unaudited)	2
Schedule of Contributions from the Employer and Other Contributing Entities – Firemen's Pension and Relief Plan (Unaudited)	3
Schedule of Funding Progress – Policemen's Pension and Relief Plan (Unaudited)	4
Schedule of Contributions from the Employer and Other Contributing Entities – Policemen's Pension and Relief Plan (Unaudited)	5
Note to the Schedule of Funding Progress and Schedule of Contributions From the Employer and Other Contributing Entities	
Schedule of Funding Progress – Local Police and Fire Retirement Plan (Unaudited)	6

OTHER SUPPLEMENTARY INFORMATION

Schedule of Fixed Assets (Unaudited)	7
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Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
Senate Co-Vice Chair
Rep. David Evans
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 Cabot, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of the presented governmental activities, each major presented governmental fund and the aggregate remaining fund information of the City of Cabot, Arkansas, as of and for the year ended December 31, 2003, which collectively comprise a portion of the City's basic financial statements 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 in Note 1(C), the City prepares its financial statements on the modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Water and Wastewater Department, the Advertising and Promotion Commission and the Parks and Recreation Commission financial information have not been included in the City's financial statements. Accounting principles generally accepted in the United States of America, as applied to the City's modified accrual basis of accounting, require the Water and Wastewater Department to be presented as a major enterprise fund and financial information about the Water and Wastewater Department to be part of the business-type activities, thus increasing the activity's assets, liabilities, revenues and expenditures. The amount by which this departure would affect the assets, liabilities, revenues and expenditures of the business-type activities and the omitted major fund is not reasonably determinable. These accounting principles, as applied to the City's modified accrual basis of accounting, also require the Advertising and Promotion Commission and the Parks and Recreation Commission to be presented as part of the governmental activities. The Parks and Recreation Commission is a major fund and the Advertising and Promotion Commission is a nonmajor fund. The amount by which these departures would affect the assets, liabilities, revenues and expenditures of the governmental activities, aggregate remaining fund information and the omitted major fund is not reasonably determinable. Also, as a result, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1(C), the modified accrual basis financial position of the Water and Wastewater Department and the Parks and Recreation Commission of the City of Cabot, Arkansas, as of December 31, 2003, and the changes in modified accrual basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1(C). The City's financial statements also do not disclose all the required information concerning deposits and investments, which should be included in order to conform with the basis of accounting described in Note 1(C).

In our opinion, because of the effects of not reporting the Water and Wastewater Department, the Advertising and Promotion Commission and the Parks and Recreation Commission as described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1(C), the modified accrual basis financial position of the governmental activities, business-type activities, and aggregate remaining fund information of the City of Cabot, Arkansas, as of December 31, 2003, and the changes in modified accrual basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1(C).

In addition, in our opinion, except for the effects of not disclosing all required information concerning deposits and investments, the financial statements referred to above present fairly, in all material respects, the respective modified accrual basis financial position of each presented major fund of the City of Cabot, Arkansas, as of and for the year ended December 31, 2003, and the respective changes in modified accrual basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2004 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 required supplementary information, as listed in the accompanying table of contents, including the General and Street Funds Budgetary Comparison Schedules and Notes and Pension Fund Schedules of Funding Progress and Schedules of Contributions and Notes, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to exclude Management's Discussion and Analysis, which is 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information in the Schedule of Fixed Assets listed in the table of contents is presented for the purpose of additional analysis, but it is neither a required part of the financial statements nor supplementary information required by the Governmental Accounting Standards Board. We have not applied auditing procedures to this information and, accordingly, express no opinion on the Schedule of Fixed Assets.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
June 3, 2004
LOM101603

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
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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 Cabot, Arkansas Officials and Council Members
Legislative Joint Auditing Committee

We have audited the financial statements of the City of Cabot, Arkansas, as of and for the year ended December 31, 2003 and have issued our report thereon dated June 3, 2004. In our report, our opinions on the governmental activities, the business-type activities and the aggregate remaining fund information were adverse because of the effects on the financial statements of not including the Parks and Recreation Commission, which is a major governmental fund, the Water and Wastewater Department, which is a major proprietary fund and the Advertising and Promotion Commission, which is a nonmajor governmental fund. Our opinions on each presented major governmental fund were qualified because required disclosures were not made concerning deposits and investments. 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.

Compliance

A. Government Auditing Standards

As part of obtaining reasonable assurance about whether the 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 District Court accounting, budgeting, purchasing, bonding and investing and depositing of public funds. The City was in substantial compliance with these laws except for the 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 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 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 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 2003:

Mayor: Mickey Stumbaugh
Clerk/Treasurer: Marva Verkler
District Court Clerk: Debi Roper
Police Chief: Jackie Davis
Finance Director: Dale Walker

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, Clerk/Treasurer, Finance Director** and **District Court Clerk** and are cited below:

The budget submitted by the **Mayor** and adopted by the City Council did not account separately for all operating funds of the City, thereby preventing a meaningful comparison of the City's actual expenditures with budgeted expenditures. An ordinance was not adopted establishing a fixed asset capitalization policy. The purpose of a policy is to establish monetary guidelines for posting fixed asset items to the City's inventory listing. Checks that had been signed by the **Mayor** and **Clerk/Treasurer** were sent back to the check preparer for mailing. This could result in checks possibly being altered after they were already signed.

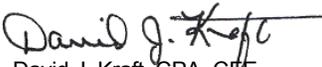
The **Finance Director** did not maintain separate accountability for each fund of the City in the financial records. This lack of separate accountability in restricted funds, such as the street fund being commingled with non-restricted funds, precluded determining the available restricted funds. This practice also promoted the occurrence of several expenditures not being charged to a fund/program and checks being paid from one fund but expensed to another. The City also failed to contact the bank when they did not receive interest on Treasury Bills invested from the 1999 and 2000 Sales and Use Tax Bond Funds and the December 2003 sales tax deposit of \$181,832.57. Inadequate reconciling procedures by the finance department led to these bank errors being undetected and prevented the City from having the maximum amount of funds to invest.

The computer software used by the City did not include adequate security controls to prevent unauthorized changes to the records by either employees or outside individuals.

The **District Court Clerk** did not retain a duplicate copy of receipts issued. A duplicate copy is needed to ensure that the amount receipted was properly deposited and posted to the City's records.

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
June 3, 2004

CITY OF CABOT, ARKANSAS
STATEMENT OF NET ASSETS - MODIFIED ACCRUAL BASIS
DECEMBER 31, 2003

Exhibit A

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 8,022,457
Accounts receivable	153,780
Taxes receivable	562,910
Accrued interest receivable	3,883
TOTAL ASSETS	\$ 8,743,030
LIABILITIES	
Payroll taxes payable	\$ 6,081
Salaries payable	130,701
Accounts payable	170,901
Compensated absences payable	26,510
TOTAL LIABILITIES	\$ 334,192
NET ASSETS	
Restricted:	
Debt service	\$ 2,641,204
Other purposes	3,990,640
Unrestricted	1,776,993
TOTAL NET ASSETS	\$ 8,408,837

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

CITY OF CABOT, ARKANSAS
STATEMENT OF ACTIVITIES - MODIFIED ACCRUAL BASIS
DECEMBER 31, 2003

Exhibit B

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets Primary Government Governmental Activities
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 1,026,809	\$ 316,540			\$ (710,269)
Public safety	3,517,923	556,220	\$ 9,898	\$ 5,936	(2,945,869)
Streets and public works	2,286,852	257,703		490,566	(1,538,583)
Health and welfare	17,651				(17,651)
Recreation and culture	426,551				(426,551)
Community development	15,000				(15,000)
Debt service:					
Principal, interest and fiscal charges	1,950,008				(1,950,008)
Total governmental activities	\$ 9,240,794	\$ 1,130,462	\$ 9,898	\$ 496,502	(7,603,932)
General revenues:					
Taxes:					
Property taxes					435,943
Franchise taxes					533,641
Sales taxes					5,395,221
State and federal aid					958,514
Interest					60,244
Other miscellaneous					137,412
Transfers					404,419
Bond issuance costs					(19,202)
Debt proceeds					2,920,000
Total general revenues and transfers					10,826,192
Change in net assets					3,222,260
Net assets - beginning					5,186,577
Net assets - ending					\$ 8,408,837

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

CITY OF CABOT, ARKANSAS
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED ACCRUAL BASIS
DECEMBER 31, 2003

Exhibit C

	General	Street	1999 Sales and Use Tax Debt Service	2000 Sales and Use Tax Debt Service	2003 Capital Improvement Bond	Other Governmental Funds	Totals Governmental Funds December 31, 2003
ASSETS							
Cash and cash equivalents	\$ 1,640,467	\$ 108,161	\$ 1,279,354	\$ 1,014,352	\$ 2,751,437	\$ 1,228,685	\$ 8,022,457
Accounts receivable	48,941	101,355				3,484	153,780
Taxes receivable	330,638	47,760	103,326	81,185			562,910
Accrued interest receivable			451	713	2,720		3,883
Interfund receivable	3	435	20,970			106	21,514
TOTAL ASSETS	\$ 2,020,050	\$ 257,711	\$ 1,404,101	\$ 1,096,250	\$ 2,754,157	\$ 1,232,275	\$ 8,764,543
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payroll taxes payable	\$ 6,081						\$ 6,081
Salaries payable	122,875	\$ 7,826					130,701
Accounts payable	113,170	5,128				\$ 52,603	170,901
Compensated absences payable	25,045	1,465					26,510
Interfund payable	438			\$ 20,970		106	21,514
Total Liabilities	267,609	14,419		20,970		52,708	355,706
Fund Balances:							
Reserved for:							
Debt service			\$ 1,404,101	1,075,280		161,823	2,641,204
Unreserved, reported in:							
General fund	1,752,441						1,752,441
Special revenue funds		243,292				1,017,744	1,261,036
Capital project funds					\$ 2,754,157		2,754,157
Total Fund Balances	1,752,441	243,292	1,404,101	1,075,280	2,754,157	1,179,566	8,408,837
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,020,050	\$ 257,711	\$ 1,404,101	\$ 1,096,250	\$ 2,754,157	\$ 1,232,275	\$ 8,764,543

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

CITY OF CABOT, ARKANSAS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS - MODIFIED ACCRUAL BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit D

	General	Street	1999 Sales and Use Tax Debt Service	2000 Sales and Use Tax Debt Service	2003 Capital Improvement Bond	Other Governmental Funds	Totals December 31, 2003
REVENUES							
State aid	\$ 232,907	\$ 725,607				\$ 9,898	\$ 968,412
Federal aid	5,936					490,566	496,502
Property taxes	184,481	129,251				122,211	435,943
Franchise taxes	533,641						533,641
Sales taxes	2,836,798	543,127	\$ 1,128,562	\$ 886,734			5,395,221
Fines, forfeitures and costs	509,896					41,939	551,835
Interest	12,802	522	15,749	12,299	\$ 3,491	15,381	60,244
Local permits and fees	320,925	42,569				104,635	468,129
Sanitation fees	110,500						110,500
Other	91,747	1,092				44,573	137,412
TOTAL REVENUES	4,839,633	1,442,168	1,144,311	899,033	3,491	829,202	9,157,838
EXPENDITURES							
Current:							
General government	1,026,809						1,026,809
Public safety	3,234,187					283,736	3,517,923
Streets and public works	419,131	1,335,254				532,467	2,286,852
Health and welfare						17,651	17,651
Recreation and culture	334,898				22,512	69,141	426,551
Community development	15,000						15,000
Total Current	5,030,025	1,335,254			22,512	902,995	7,290,786
Debt service:							
Principal, interest and fiscal charges			1,012,864	937,144			1,950,008
TOTAL EXPENDITURES	5,030,025	1,335,254	1,012,864	937,144	22,512	902,995	9,240,794
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(190,392)	106,914	131,447	(38,111)	(19,021)	(73,793)	(82,956)

CITY OF CABOT, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit D

	General	Street	1999 Sales and Use Tax Debt Service	2000 Sales and Use Tax Debt Service	2003 Capital Improvement Bond	Other Governmental Funds	Totals December 31, 2003
OTHER FINANCING SOURCES (USES)							
Transfers in						\$ 127,620	\$ 127,620
Transfers out					\$ (127,620)		(127,620)
Transfers from water department	\$ 370,252						370,252
Bond issuance costs					(19,202)		(19,202)
Contribution from advertising and promotion						34,167	34,167
Debt proceeds					2,920,000		2,920,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>370,252</u>				<u>2,773,178</u>	<u>161,787</u>	<u>3,305,217</u>
NET CHANGE IN FUND BALANCES	179,860	\$ 106,914	\$ 131,447	\$ (38,111)	2,754,157	87,994	3,222,260
FUND BALANCES - JANUARY 1	<u>1,572,581</u>	<u>136,378</u>	<u>1,272,654</u>	<u>1,113,391</u>		<u>1,091,573</u>	<u>5,186,577</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,752,441</u>	<u>\$ 243,292</u>	<u>\$ 1,404,101</u>	<u>\$ 1,075,280</u>	<u>\$ 2,754,157</u>	<u>\$ 1,179,566</u>	<u>\$ 8,408,837</u>

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

CITY OF CABOT, ARKANSAS
 STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED ACCRUAL BASIS
 AS OF DECEMBER 31, 2003

Exhibit E

	Pension Trust Funds			
	Firemen's Pension	Policemen's Pension	Municipal Judge's and Clerk's Retirement	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 394,095	\$ 719,946	\$ 67,605	\$ 106,082
Accounts receivable				40,543
Investments:				
Mortgages	912,532	961,818		
TOTAL ASSETS	1,306,627	1,681,763	67,605	146,625
LIABILITIES				
Settlements pending				\$ 146,625
NET ASSETS				
Held in trust for pension benefits	\$ 1,306,627	\$ 1,681,763	\$ 67,605	

(Schedules of funding progress for the Firemen's and Policemen's Pension plans are presented as Schedules 2 and 4.)

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

CITY OF CABOT, ARKANSAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS -
MODIFIED ACCRUAL BASIS
FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit F

	Pension Trust Funds		
	Firemen's Pension	Policemen's Pension	Municipal Judge's and Clerk's Retirement
ADDITIONS			
Contributions:			
Employer	\$ 66,661	\$ 99,006	\$ 2,193
Other sources - state funds	743	2,776	
Plan member	2,273		
Total Contributions	69,677	101,781	2,193
Investment income:			
Interest	38,218	54,072	1,496
TOTAL ADDITIONS	107,895	155,854	3,689
DEDUCTIONS			
Benefits	58,517	73,940	
Administrative expense	1,278	2,448	
TOTAL DEDUCTIONS	59,795	76,388	
NET INCREASE	48,100	79,466	3,689
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS			
NET ASSETS - beginning of the year	1,258,527	1,602,297	63,916
NET ASSETS - end of the year	\$ 1,306,627	\$ 1,681,763	\$ 67,605

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

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies

As discussed further in Note 1(C), these financial statements are presented on a modified accrual basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified accrual basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

A. Financial Reporting Entity

The City of Cabot was incorporated under the laws of the State of Arkansas and operates under an elected Mayor-Council form of government. The financial statements of the reporting entity include those of the City (the primary government).

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues and expenditures of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues and expenditures of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity included in the financial statements are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund and is used to account for all financial resources, except those required to be accounted for in another fund. It is always classified as a major fund. The General Fund heading as it appears in the financial statements includes the following bank accounts: General, Fire Vehicle, Animal Shelter, Police Equipment, Police Grant and Future Railroad Crossing.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Governmental Funds (Continued)

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. Management has elected to classify the Street Fund, which is a special revenue fund used to account for funds legally restricted for street expenditures as a major fund. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Police LOPFI, Fire LOPFI, Fire Protection, District Court Cost, Senior Citizens / Health / Library, Sidewalk Savings, Meadows FEMA, Half-Street Improvement, Diamond Creek FEMA and District Court Automation.

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. The 2003 Capital Improvement Bond Fund is reported as a major fund, which accounts for proceeds from a bond issue to be used to construct a community center.

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 1999 and 2000 Debt Service Funds are reported as major funds, which account for the repayment of bonds financed by the collection of a one percent sales tax.

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.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the current financial resources measurement focus, within the limitations of the modified accrual basis of accounting, as defined below:

In the fund financial statements, the "current financial resources" measurement focus, as applied to the modified accrual basis of accounting, is used as appropriate:

All governmental and fiduciary funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. Governmental funds use fund balance as their measure of available spendable financial resources at the end of the period. Fiduciary fund equity is classified as net assets.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting

The financial statements are presented using a modified accrual basis of accounting. This basis recognizes revenues when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recognized when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due. The basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified accrual basis of accounting, certain assets (such as fixed assets) and its related revenues and certain liabilities (such as long-term debt) and its related expenditures are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Assets, Liabilities and Equity

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, treasury bills and short-term investments with an original maturity of three months or less.

Investments

Investments are reported at cost.

Liabilities

For the purpose of financial reporting, liabilities include accounts payable, salaries payable, payroll taxes payable, compensated absences payable, interfund payables and settlements pending. Settlements pending are considered fines, forfeitures and costs that have not been transferred to the appropriate entities.

Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted".

The City has no policy regarding whether to first use reserved or unreserved resources when a disbursement is incurred for purposes for which both reserved and unreserved net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Revenues and Expenditures

Program Revenues

In the Statement of Activities, modified accrual basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General government	Licenses and permits
Public safety	Court fines, animal control fees, operating and capital grants include: Act 833 and Local Law Enforcement Block Grant.
Streets and public works	Street cuts, mowing fees, sanitation fees, recycling fees, developer fees and capital grants include: Meadows/Meadowlark Ditch and Box Culvert Drainage Improvements (FEMA) and Drainage Improvements in the City of Cabot FEMA Diamond Creek.

All other governmental receipts are reported as general. All taxes are classified as general revenues even if restricted for a specific purpose.

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.

NOTE 2: Cash and Investments

Custodial credit risk information for deposits and investments has not been provided, as required by Governmental Accounting Standards Board Statement No. 3. This statement requires disclosure relating to whether deposits are insured or secured with collateral and whether investments are insured or registered.

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 five hundred thousand dollars (\$500,000), the funds may be deposited or invested as noted below. If the total assets of the fund exceed five hundred thousand dollars (\$500,000), 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 CABOT, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

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

B. Pension Trust Funds (Continued)

(2) Firemen's Pension

State law provides that if the total assets of the firemen's pension trust fund are less than one hundred thousand dollars (\$100,000), the funds may be deposited or invested as noted below. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), the fund may employ a professional investment advisor to invest the assets subject to the prudent investor rule and/or in no-load mutual funds.

(3) Policemen's and Firemen's Pension Investments

The funds may be deposited or invested as noted in Note 3(A) and may include deposits in federally insured savings and loans located in the State of Arkansas and notes secured by mortgages on real estate guaranteed either by the United States government or by a corporation approved by the State Commissioner of Insurance. Investments of other types are allowed by state law, but it has not been a common practice to utilize them.

(4) Municipal Judge's and Clerk's Retirement

Municipal Judge's and Clerk's Retirement funds are allowed the same type of deposits and investments as listed in 3(A) above. Additionally, they may purchase interest-bearing securities in the State of Arkansas, or certificates of the United States, or any or all of such securities. They may also deposit in federally insured savings and loans located in the State of Arkansas. If the total assets of the fund exceed one hundred thousand dollars (\$100,000), assets may be invested subject to the prudent investor rule.

NOTE 4: Public Fund Investments

A summary of investments by fund types is as follows:

Fund Type	December 31, 2003	
	Reported Amount	Fair Value
Fiduciary	\$ 1,874,350	\$ 1,891,726

These investments are composed of the following:

	December 31, 2003	
	Reported Amount	Fair Value
Mortgages	\$ 1,874,350	\$ 1,891,726

NOTE 5: Legal Debt Limit - Tax Secured Bond Issues

The City is subject to a constitutional limitation for bonded indebtedness equal to twenty percent (20%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2003, the legal debt limit for the City was \$28,626,476. There were no property tax secured bond issues.

NOTE 6: Federal Funds Program Compliance

The federal grants of the City have not been audited in accordance with federal program requirements and therefore, any instances of noncompliance with federal grant requirements have not been determined.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7: Commitments

Total commitments consist of the following at December 31, 2003:

	December 31, 2003
Long-term debt	\$ 14,692,604
Noncancellable operating leases	10,103
Total Commitments	\$ 14,702,707

Long-Term Debt

Long-Term Debt at December 31, 2003 is comprised of the following:

	December 31, 2003
1999 Sales and Use Tax Refunding and Improvement Bonds; principal due June 1; maturing June 1, 2024; interest rates from 3.75% to 4.80%.	\$ 6,570,000
2000 Sales and Use Tax Refunding and Improvement Bonds; principal due June 1; maturing June 1, 2015; interest rates from 4.75% to 5.85%.	4,980,000
2003 Advertising and Promotion Tax Bonds; principal due October 1; maturing October 1, 2019; interest rate 4%.	2,920,000
Compensated absences consisting of noncurrent portion of accrued vacation and sick leave adjusted to current salary cost.	222,604
Total Long-Term Debt	\$ 14,692,604

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

Compensated Absences

Compensated absences do vest or accumulate. The amount of compensated absences is reflected above.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7: Commitments (Continued)

Debt Service Requirements to Maturity

The City is obligated for the following amounts:

<u>Years Ending December 31,</u>	<u>Bonds</u>
2004	\$ 1,306,157
2005	1,336,672
2006	1,334,249
2007	1,338,048
2008	1,331,025
2009 through 2013	<u>15,396,325</u>
Total Obligations	22,042,476
Less Interest	<u>7,572,476</u>
Total Principal	<u><u>\$ 14,470,000</u></u>

Noncancellable Operating Leases

The City entered into two noncancellable operating lease agreements for two Toshiba copiers on September 25, 2002. Terms of the leases are monthly rental payments of \$240.56 for 36 months each. At the end of the lease term, the City has the option to purchase the copiers at fair market value. The City is obligated for the following amounts for the next two years:

<u>Year</u>	<u>Amount</u>
2004	\$ 5,773
2005	<u>4,330</u>
Total	<u><u>\$ 10,103</u></u>

Rental expenditures for 2003 were \$5,773.

NOTE 8: 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.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 8: Risk Management (Continued)

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

The City also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$300,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the Municipal Aid Fund. There is a \$1,000 deductible per occurrence.

NOTE 9: Municipal Judge's and Clerk's Retirement Plan

Plan Description

The Municipal Judge's and Clerk's Retirement Plan is a single-employer defined benefit pension plan that covers the Municipal Judges and Clerks of the City. The plan, administered by the City, provides retirement, disability and death benefits to plan members and their beneficiaries. The plan does not provide for post-retirement benefit increases. Benefit and contribution provisions are established by State law and can be amended only by the Arkansas General Assembly. Current membership of the plan was not determined. 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 Municipal Judge's and Clerk's Retirement Plan financial statements are prepared using the modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Contributions are recognized when measurable and available. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at cost.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 9: Municipal Judge's and Clerk's Retirement Plan (Continued)

Contributions

Contributions are not required by the City or the covered employees under present legislation. If the accumulated assets of the fund ever become deficient to pay the retirement benefits under the plan, the deficiency shall be met by payments from the City's General Fund and proportionately from the County's General Fund, if the salary of the Municipal Judge is paid partially by the County, until such time as the plan accumulates funds sufficient to pay benefits. Total contributions were \$2,193.

Annual Pension Cost and Net Pension Obligation

Governmental Accounting Standards Board Statement No. 27 requires the disclosure of the annual pension cost and net pension obligation. The statement also requires an actuarial valuation to be performed at least biennially with the disclosure of the date of the valuation and identification of the actuarial methods and significant assumptions used to determine the annual required contribution. The City did not obtain an actuarial valuation for the plan, therefore, the above information is not available.

Trend Information

The required trend information is not available, since the plan did not have an actuarial valuation.

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, 2001, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	13*
DROP Participants	0*
Terminated members entitled to but not yet receiving benefits	0*
Active members	2*

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 modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Contributions are recognized when measurable and available. 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 cost.

CITY OF CABOT, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 10: Firemen's Pension and Relief Plan (Continued)

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.

Concentrations

The following represents investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent five percent (5%) or more of plan net assets:

Federal Home Loan Mortgage Corporation - \$803,548
 Government National Mortgage Association - 108,984

Annual Pension Cost and Net Pension Obligation

The annual pension cost for the plan for the current year is \$0. The employer's contribution to the plan for the current year is \$66,661 and the contributions from other contributing entities are \$743. 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 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

NOTE 11: 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. At December 31, 2001, plan membership consisted of:

Retirees and beneficiaries currently receiving benefits	3*
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 Policemen's Pension and Relief Plan financial statements are prepared using the modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Contributions are recognized when measurable and available. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

Summary of Significant Accounting Policies (Continued)

Method Used to Value Investments. Investments are reported at cost.

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.

Concentrations

The following represents investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent five percent (5%) or more of plan net assets:

Federal Home Loan Mortgage Corporation – \$803,548
Government National Mortgage Association – \$158,269

Annual Pension Cost and Net Pension Obligation

The annual pension cost for the plan for the current year is \$0. The employer's contribution to the plan for the current year is \$99,006 and the contributions from other contributing entities are \$2,776. 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 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

**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.

CITY OF CABOT, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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

Funding Policy

The employee contribution rate depends on the type of service being rendered and whether or not the service is also covered by Social Security. The different employee contribution rates required by state law are:

- A. Paid service not covered by Social Security: 6% of gross pay
- B. Paid service also covered by Social Security: no employee contribution
- C. Volunteer fire service: no employee contribution

The City is required to contribute at an actuarially determined rate; the 2002 rates are 10.39% and 10.53% of annual covered payroll for paid service fire and paid service police, respectively, and \$0 and \$16.59 per month, per member for volunteer service fire and volunteer service police, respectively. 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 2002, 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, 2000 revised actuarial valuation using the individual entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.1% to 9.1% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4%. 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>2002</u>	<u>2001</u>	<u>2000</u>
<u>Paid Service Fire</u>			
Annual Pension Cost (APC)	\$71,915	\$79,365	\$74,401
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ 0	\$ 0	\$ 0
<u>Paid Service Police</u>			
Annual Pension Cost (APC)	\$88,211	\$85,726	\$87,775
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ 0	\$ 0	\$ 0
<u>Volunteer Service Fire</u>			
Annual Pension Cost (APC)	\$0	\$0	\$289
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ 0	\$ 0	\$ 0

CITY OF CABOT, ARKANSAS
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

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

	Trend Information for LOPFI (Continued)		
	2002	2001	2000
<u>Volunteer Service Police</u>			
Annual Pension Cost (APC)	\$116		
Percentage of APC Contributed	100%		
Net Pension Obligation	\$ 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 10% of annual covered payroll. The City's contributions to PERS for the years ending December 31, 2003, 2002 and 2001 were \$215,603, \$188,118 and \$126,371, respectively, equal to the required contributions for each year.

CITY OF CABOT, ARKANSAS
 BUDGETARY COMPARISON SCHEDULE - MODIFIED ACCRUAL BASIS (Unaudited)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003

CITY OF CABOT, ARKANSAS
 BUDGETARY COMPARISON SCHEDULE - MODIFIED ACCRUAL BASIS (Unaudited)
 STREET FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003

Schedule 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 887,028	\$ 887,028	\$ 1,572,581	\$ 685,553
Resources (Inflows)				
State aid:				
General turnback	275,000	275,000	232,907	(42,093)
Federal aid			5,936	5,936
Property taxes	130,000	130,000	184,481	54,481
Franchise taxes	525,000	525,000	533,641	8,641
Local permits and fees	325,000	325,000	320,925	(4,075)
Sanitation fees	500,000	500,000	110,500	(389,500)
Other	307,500	307,500	91,747	(215,753)
Other financing sources			370,252	370,252
Amounts available for appropriation	6,047,528	6,047,528	6,782,466	734,938
Charges to Appropriations (Outflows)				
General government	880,681	880,681	1,026,809	(146,128)
Public safety	3,361,166	3,361,166	3,234,187	126,979
Streets and public works	723,653	723,653	419,131	304,522
Recreation and culture	180,000	180,000	334,898	(154,898)
Community development	15,000	15,000	15,000	
Total Charges to Appropriations	5,160,500	5,160,500	5,030,025	130,475
Ending Budgetary Fund Balance	\$ 887,028	\$ 887,028	\$ 1,752,441	\$ 865,413

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$ 103,478	\$ 103,478	\$ 136,378	\$ 32,900
Resources (Inflows)				
State aid:				
Street turnback	725,000	725,000	725,607	607
Property taxes	125,000	125,000	129,251	4,251
Sales taxes	550,000	550,000	543,127	(6,873)
Interest			522	522
Local permits and fees			42,569	42,569
Other			1,092	1,092
Amounts available for appropriation	1,503,478	1,503,478	1,578,546	75,068
Charges to Appropriations (Outflows)				
Streets and public works	1,400,000	1,400,000	1,335,254	64,746
Ending Budgetary Fund Balance	\$ 103,478	\$ 103,478	\$ 243,292	\$ 139,814

CITY OF CABOT, ARKANSAS
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2003

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 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 all operating funds were not budgeted.

Basis of 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 Police LOPFI, Fire LOPFI, Act 833 – Fire Protection, Sr. Citizen/Health/Library, Sidewalk Savings and Half-Street Improvement Funds. Formal budgetary policies are not employed for the Fiduciary Fund Types and the Capital Projects and Debt Service Funds.

CITY OF CABOT, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 FIREMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 2

<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>
12/31/2001	\$ 1,188,852	\$ 694,967	\$ (493,885)	171%	\$ 32,820	(1505)%
12/31/1999	1,015,873	454,206	(561,667)	224%	30,761	(1826)%
12/31/1997	878,939	451,860	(427,079)	195%	28,369	(1505)%
12/31/1995	766,996	417,064	(349,932)	184%	17,437	(2007)%

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

CITY OF CABOT, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
 FIREMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 3

<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>
2003	\$ 0	N/A	\$ 743	100%
2002	0	N/A	7,811	100%
2001	0	N/A	7,871	100%
2000	0	N/A	12,308	100%
1999	0	N/A	12,404	100%
1998	0	N/A	15,759	100%

CITY OF CABOT, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 POLICEMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 4

<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>
12/31/2001	\$ 1,496,295	\$ 831,816	\$ (664,479)	180%	\$ 0	0%
12/31/1999	1,295,616	577,356	(718,260)	224%	0	0%
12/31/1997	1,103,079	513,355	(589,724)	215%	0	0%
12/31/1995	948,357	517,309	(431,048)	183%	24,952	(1728)%

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

CITY OF CABOT, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
 POLICEMEN'S PENSION AND RELIEF PLAN
 (Unaudited)

Schedule 5

<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>
2003	\$ 0	N/A	\$ 2,776	100%
2002	0	N/A	13,517	100%
2001	0	N/A	12,931	100%
2000	0	N/A	13,372	100%
1999	0	N/A	12,444	100%
1998	0	N/A	12,889	100%

CITY OF CABOT, 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 Fund</u>	<u>Policemen's Pension and Relief Plan</u>
Valuation date	12/31/01	12/31/01
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed
Remaining amortization period	6 years	6 years
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	6%	6%
Projected salary increases*	4.2-8.0%	4.2-8.0%
*Includes inflation at	4%	4%
Cost-of-living adjustments	None	None

CITY OF CABOT, ARKANSAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 LOCAL POLICE AND FIRE RETIREMENT PLAN
 (Unaudited)

Schedule 6

<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>
Paid Service Fire						
12/31/2002	\$ 840,966	\$ 962,255	\$ 121,289	87%	\$ 699,377	17%
12/31/2001	683,216	443,079	(240,137)	154%	575,111	(42)%
12/31/2000	518,353	538,862	20,509	96%	549,679	4%
Paid Service Police						
12/31/2002	\$ 1,347,098	\$ 1,128,991	\$ (218,107)	119%	\$ 837,708	(26)%
12/31/2001	1,195,536	670,729	(524,807)	178%	790,103	(66)%
12/31/2000	1,019,277	776,559	(242,718)	131%	778,287	(31)%
Volunteer Service Fire						
12/31/2002	\$ 51,126	\$ 29,532	\$ (21,594)	173%	N/A	N/A
12/31/2001	49,024	5,882	(43,142)	833%	N/A	N/A
12/31/2000	45,418	1,562	(43,856)	2908%	N/A	N/A
Volunteer Service Police						
12/31/2002	\$ 170	\$ 3	\$ (167)	5667%	N/A	N/A

CITY OF CABOT, ARKANSAS
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF FIXED ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Unaudited)

Schedule 7

	<u>December 31, 2003</u>
<u>General Fixed Assets</u>	
Land	\$ 640,551
Buildings	3,799,903
Equipment	<u>3,386,763</u>
Total	<u><u>\$ 7,827,217</u></u>