



5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479 452-1040 Fax 479 452-5542

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501 372-1040 Fax 501 372-1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870 534-9172 Fax 870 534-2146

bkd.com

July 18, 2003

City of Jonesboro
Finance and Administration Committee
Attn: Mayor Hubert Brodell
515 West Washington Avenue
Jonesboro, Arkansas 72403

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to the **FINANCE AND ADMINISTRATION COMMITTEE OF THE CITY OF JONESBORO** during the 2003 calendar year.

OUR SERVICES AND RESPONSIBILITIES OF THE PARTIES

We will apply the procedures ultimately listed in our report and confirmed in the letter of representation signed by the City's Finance and Administration Committee to assist with its internal audit function. We will report findings that we deem significant and make recommendations, if any are developed, as a result of the procedures. The sufficiency of the procedures is solely the responsibility of the specified users of our report.

Because the procedures ultimately listed in our report, will not constitute an audit, we will not express an opinion on any of the elements, accounts or items of the City's financial statements, or the financial statements taken as a whole. In addition, we have no obligation to perform any procedures beyond those ultimately approved by the Finance and Administration Committee.

Our engagement will not include a detailed examination of all transactions and cannot be relied upon to disclose misstatements that might exist due to error, fraud, illegal acts or noncompliance with laws and regulations. However, we will inform you of any such matters, if material, that come to our attention. It should be understood that management has the responsibility for the proper recording of transactions, safeguarding of assets and preparation of financial statements. Management is also responsible for establishing and maintaining effective internal control, which is the best means of preventing or detecting errors, fraud, illegal acts and noncompliance with laws and regulations. Because of the limits in any internal control structure, errors, fraud, illegal acts or instances of noncompliance may occur and not be detected. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system.

**Solutions
for
Success**

City of Jonesboro
Finance and Administration Committee
Attn: Mayor Hubert Brodell
July 18, 2003
Page 2

We have not been engaged to provide an opinion with respect to the effectiveness of your controls over compliance or the degree of compliance with your policies and procedures or applicable laws and/or regulations.

We will submit department reports to the Finance and Administration Committee of the City of Jonesboro summarizing the procedures performed, the results of those procedures, and any suggestions that we may have for improving the City's system of internal control and accounting procedures. These reports are intended for the use of members of the City's Finance and Administration Committee solely for reporting findings with respect to procedures.

Based upon the results of the procedures, you may determine that additional procedures are necessary. Any such additional procedures that we may perform will be agreed to, in writing, and will be performed for an additional fee.

We will not make management decisions or perform management functions, the responsibility for which remains with administration. We will report only to the City's Finance and Administration Committee with regard to procedures performed, results of these procedures and recommendations resulting from these procedures.

ENGAGEMENT FEES

Our fees will not exceed \$19,600 or 200 hours at \$98 an hour for procedures performed on the Street Department. Upon completion of the Street Department, the Finance and Administration Committee has the option to have procedures performed on the Sanitation, and Parks and Recreation Departments with a fee not to exceed \$30,400 for an overall maximum engagement fee of \$50,000. Procedures on all three departments are expected to be completed by November 30, 2003. The reports are expected to be delivered by December 31, 2003.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

Our invoices are due within 30 days. If our invoices for this or any other engagement you may have with BKD are not paid when due, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

City of Jonesboro
Finance and Administration Committee
Attn: Mayor Hubert Brodell
July 18, 2003
Page 3

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

The employees of BKD are not, under any circumstances, your employees. Decisions regarding management of your business remain the responsibility of your personnel at all times.

The reports we issue as a result of this engagement will be the property of the City's Finance and Administration Committee. They will be intended for use only by City's Finance and Administration Committee solely for reporting findings with respect to the procedures performed by us.

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. However, we can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree that we have no legal responsibility to you in the event we provide such documents or information.

Our services do not include interpretation of legal matters. You should seek the advice of legal counsel in such matters. Regulatory authorities may interpret circumstances differently than us. In addition, the applicable laws, regulations and regulators' enforcement activities may change over time.

You agree to indemnify and hold harmless BKD and its personnel from any claims, liabilities, costs and expenses relating to our services under this agreement, except to the extent determined to have resulted from the intentional or deliberate misconduct of BKD personnel.

Any liability of BKD and its personnel to you is limited to the amount of the fee you paid for this engagement as liquidated damages.

You agree that any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Either of us may terminate these services with 30 days advance notice. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date plus out-of-pocket expenses incurred.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

City of Jonesboro
Finance and Administration Committee
Attn: Mayor Hubert Brodell
July 18, 2003
Page 4

This engagement letter represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of BKD, LLP have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

We will be pleased to discuss this letter with you at any time and look forward to the opportunity of serving you. If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us.

BKD, LLP

BKD, LLP

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

CITY OF JONESBORO

