

**Lonoke County, Arkansas**

**Regulatory Basis Financial Statements,  
Supplemental Information and Other Reports**

**December 31, 2005**

LEGISLATIVE JOINT AUDITING COMMITTEE



LONOKE COUNTY, ARKANSAS  
TABLE OF CONTENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet – Regulatory Basis	A
Combined Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis	B
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual – General and Road Funds – Regulatory Basis	C
Notes to Financial Statements	

OTHER SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Lonoke County, Arkansas Officials and Quorum Court Members  
Legislative Joint Auditing Committee

We have audited the accompanying regulatory basis financial statements of the general fund, road fund, and other funds in the aggregate of Lonoke County, Arkansas, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1(B and C), the County has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Lonoke County, Arkansas, as of December 31, 2005, or the changes in financial position or cash flows, where applicable, thereof for the year then ended. Further, the County has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

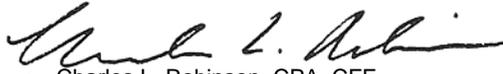
The financial statements referred to above do not disclose all the required information concerning deposit risks, which should be included in order to conform with the regulatory basis of accounting described in Note 1(C).

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund, road fund, and other funds in the aggregate of Lonoke County, Arkansas, as of December 31, 2005, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and road fund for the year then ended for the regulatory basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements of Lonoke County, Arkansas. The supplementary information in the Schedule of Capital Assets listed in the table of contents as Schedule 1 is required by the regulatory basis of presentation and is presented for the purpose of additional analysis. We have not applied auditing procedures to this information and, accordingly, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
October 4, 2006  
LOCO04305

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Lonoke County, Arkansas Officials and Quorum Court Members  
Legislative Joint Auditing Committee

We have audited the accompanying regulatory basis financial statements of the general fund, road fund, and other funds in the aggregate of Lonoke County, Arkansas, as of and for the year ended December 31, 2005 and have issued our report thereon dated October 4, 2006. In our report, our opinions on the general fund, road fund, and other funds in the aggregate were qualified because required disclosures were not made concerning deposit risks. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable 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 caused by error or fraud 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 below relating to inadequate segregation of duties to be a material weakness.

1. To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions should be distributed among appropriate employees. The County officials, as specified in the Other Issues section of this report, did not segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the County's assets, because of limited financial resources. We recommend that the financial accounting duties in each office be segregated among employees to the extent possible.

The County officials, as specified in the Other Issues section of this report, responded and indicated that their offices will segregate the duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions to the extent possible with the current staffing levels.

2. Sheriff's office personnel discovered two employees had charged nonbusiness items totaling \$3,143 to the County's credit card during the period January 1, 2005 through March 31, 2006. Subsequently, Sergeant Ruth Baker and former Secretary Cindy Cullums reimbursed \$1,011 and \$2,132, respectively, to the County.

To improve internal controls, we recommend the County exercise management oversight responsibility and implement policies to ensure disbursement documentation is reviewed for propriety.

The Sheriff has responded that the department has implemented new policies to improve internal controls.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the County'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Internal Control over Financial Reporting section as finding number 2.

## Other Issues

The following issues are not reportable conditions or material instances of noncompliance, but are issues that are presented to assist in the efficient operation of the County.

The commentary contained in this section relates to the following officials that held office during 2005:

County Judge: Charlie Troutman  
Treasurer: Karol DePriest  
Sheriff: Jim Roberson  
Tax Collector: Hugh Keller  
County Clerk: Prudie Perceful  
Circuit Clerk: Deborah Ogelsby  
Assessor: Jerry Adams  
County Librarian: Garnett Campbell

Our audit procedures indicated that the Offices of **Treasurer**, **County Clerk** and **Circuit Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices were noted in the Offices of **County Judge**, **Sheriff**, **Collector**, **Assessor** and **County Librarian** and are reported below:

The **Sheriff** again used profits earned by the Commissary Funds for law enforcement purposes. These expenditures circumvented controls over budgeting and disbursing of funds.

Lonoke County levied and collected voluntary taxes for the benefit of the following private nonprofit corporations: Lonoke County Fair Board, Council on Aging, Lonoke Exceptional School, Humane Society, Lonoke County Cares and Open Arms Shelter. This is in conflict with Article 12, Section No. 5 of the Arkansas Constitution as interpreted by Attorney General's Opinion No. 96-069.

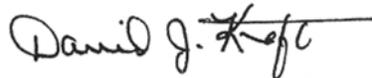
During a follow-up computer application review of the Offices of **Assessor** and **Collector**, the following findings were noted:

1. Password control parameters again were not adequate. These conditions could lead to misuse or theft of county funds in addition to inadequate segregation of duties pertaining to electronic data management.
2. Proper segregation of functions again has not been achieved because the application software vendor has the ability to change data in the Assessor's and Collector's applications. This access to both program logic and application data files violates industry standards and affords the opportunity to process and conceal unauthorized transactions.

Fixed asset records were not maintained by the **County Librarian**. These records are necessary for accurate financial reporting and safeguarding of assets.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local County government, state executive and oversight management, the federal awarding agencies and pass-through entities, if applicable, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
October 4, 2006

LONOKE COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - REGULATORY BASIS  
 DECEMBER 31, 2005

Exhibit A

	General	Road	Other Funds In The Aggregate
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,743,544	\$ 495,249	\$ 4,627,287
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Settlements pending			\$ 2,004,377
Fund Balances:			
Reserved		\$ 495,249	2,622,910
Unreserved:			
Undesignated	\$ 1,743,544		
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,743,544</b>	<b>\$ 495,249</b>	<b>\$ 4,627,287</b>

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

LONOKE COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 890,479	\$ 1,634,703	\$ 456,227
Federal aid	75,635		675,736
Property taxes	1,450,931	583,296	441,925
Sales taxes		1,622,352	540,784
Fines, forfeitures and costs	689,967		89,256
Interest	25,363	11,260	30,014
Officers' fees	109,736		494,747
911 Emergency fees			336,706
Commissary profits			28,487
Treasurer's commission	94,513		27,319
Collector's commission	732,436		137,614
Taxes apportioned - Assessor's salary and expense	519,251		
Other	637,278	80,461	240,298
TOTAL RECEIPTS	5,225,589	3,932,072	3,499,113
Less: Treasurer's commission	90,107	76,884	37,883
NET RECEIPTS	5,135,482	3,855,188	3,461,230
DISBURSEMENTS			
Current:			
General government	1,828,184		129,510
Law enforcement	2,602,859		265,884
Highways and streets		3,797,446	
Public safety	97,251		386,018
Sanitation			456,160
Health	26,430		
Recreation and culture	77,954		673,074
Social services	12,815		
Total Current	4,645,493	3,797,446	1,910,646
Debt service:			
Principal	35,724	46,459	
Interest	3,512	20,345	
TOTAL DISBURSEMENTS	4,684,729	3,864,250	1,910,646
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	450,753	(9,062)	1,550,584
OTHER FINANCING SOURCES (USES)			
Transfers in	318,450		29,933
Transfers out	(4,000)		(344,383)
Excess commissions distributed	(412,117)	52,089	30,068
TOTAL OTHER FINANCING SOURCES (USES)	(97,667)	52,089	(284,382)

LONOKE COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 REGULATORY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Road	Other Funds In The Aggregate
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	\$ 353,086	\$ 43,027	\$ 1,266,202
FUND BALANCES - JANUARY 1	1,390,458	452,222	1,356,708
FUND BALANCES - DECEMBER 31	\$ 1,743,544	\$ 495,249	\$ 2,622,910

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

LONOKE COUNTY, ARKANSAS  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 890,479	\$ 890,479		\$ 1,634,703	\$ 1,634,703	
Federal aid	75,634	75,635	\$ 1			
Property taxes	1,450,931	1,450,931		583,643	583,296	\$ (347)
Sales taxes				1,622,352	1,622,352	
Fines, forfeitures and costs	689,967	689,967				
Interest	21,413	25,363	3,950	11,261	11,260	(1)
Officers' fees	109,742	109,736	(6)			
Treasurer's commission	94,396	94,513	117			
Collector's commission	286,849	732,436	445,587			
Taxes apportioned - Assessor's salary and expense	481,957	519,251	37,294			
Other	631,918	637,278	5,360	80,461	80,461	
<b>TOTAL RECEIPTS</b>	<b>4,733,286</b>	<b>5,225,589</b>	<b>492,303</b>	<b>3,932,420</b>	<b>3,932,072</b>	<b>(348)</b>
Less: Treasurer's commission		90,107	(90,107)		76,884	(76,884)
<b>NET RECEIPTS</b>	<b>4,733,286</b>	<b>5,135,482</b>	<b>402,196</b>	<b>3,932,420</b>	<b>3,855,188</b>	<b>(77,232)</b>
DISBURSEMENTS						
Current:						
General government	2,091,021	1,828,184	262,837			
Law enforcement	2,687,623	2,602,859	84,764			
Highways and streets				3,895,340	3,797,446	97,894
Public safety	97,452	97,251	201			
Health	30,208	26,430	3,778			
Recreation and culture	77,962	77,954	8			
Social services	14,922	12,815	2,107			
<b>Total Current</b>	<b>4,999,188</b>	<b>4,645,493</b>	<b>353,695</b>	<b>3,895,340</b>	<b>3,797,446</b>	<b>97,894</b>

LONOKE COUNTY, ARKANSAS  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (CONTINUED)						
Debt service:						
Principal		\$ 35,724	\$ (35,724)		\$ 46,459	\$ (46,459)
Interest		3,512	(3,512)		20,345	(20,345)
TOTAL DISBURSEMENTS	<u>\$ 4,999,188</u>	<u>4,684,729</u>	<u>314,459</u>	<u>\$ 3,895,340</u>	<u>3,864,250</u>	<u>31,090</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(265,902)</u>	<u>450,753</u>	<u>716,655</u>	<u>37,080</u>	<u>(9,062)</u>	<u>(46,142)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	399,829	318,450	(81,379)			
Transfers out	(3,000)	(4,000)	(1,000)			
Excess commissions distributed		(412,117)	(412,117)	52,089	52,089	
TOTAL OTHER FINANCING SOURCES (USES)	<u>396,829</u>	<u>(97,667)</u>	<u>(494,496)</u>	<u>52,089</u>	<u>52,089</u>	
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	130,927	353,086	222,159	89,169	43,027	(46,142)
FUND BALANCES - JANUARY 1	<u>647,608</u>	<u>1,390,458</u>	<u>742,850</u>	<u>452,222</u>	<u>452,222</u>	
FUND BALANCES - DECEMBER 31	<u>\$ 778,535</u>	<u>\$ 1,743,544</u>	<u>\$ 965,009</u>	<u>\$ 541,391</u>	<u>\$ 495,249</u>	<u>\$ (46,142)</u>

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

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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

As discussed further in Note 1(B), these financial statements are presented in accordance with the regulatory basis of presentation and accounting as prescribed by Arkansas Code. This regulatory basis of presentation and accounting differs from accounting principles generally accepted in the United States of America.

**A. Financial Reporting Entity**

The County is a political subdivision of the state governed by an elected quorum court. The reporting entity includes all the funds of the County.

**B. Basis of Presentation – Regulatory Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Arkansas Code requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and road fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of: a balance sheet; a statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances); a comparison of the final adopted budget to the actual expenditures for the general fund and road fund; notes to the financial statements; and a supplemental schedule of capital assets.

The following types of funds are recognized in the accompanying regulatory basis financial statements.

**General Fund** - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund heading as it appears in the financial statements includes the following funds: General, Insurance and Housing Bond.

**Road Fund** - The Road Fund is used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for maintaining and constructing county roads.

**Other Funds in the Aggregate** - Other Funds in the Aggregate consist of all funds included in the financial statements except for the General and Road Funds. The following types of funds are included in this column as follows:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for specific purposes. The following special revenue funds are reported with other funds in the aggregate: 911 Emergency, Radio, Sheriff's Office, Boating Safety, Recorder's Cost, Child Support, Juvenile Probation, Victim Witness, DLEP Grant, Cops Fast Grant, Cops More Grant, Juvenile Court Representation, Treasurer's Automation, Sheriff's Special Crime, Sheriff's Drug Control, County Clerk's Cost, Law Enforcement Block Grant, Collector's Automation, Prosecutor's Grant, Solid Waste, Court Automation, Jail Maintenance, County Library, Radio Tower Lease, Woodlawn Grant, Public Safety, Walters Chapel Grant, Southbend Fire Department and Commissary.

**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 following capital projects funds are reported with other funds in the aggregate: CSEPP Building, AWIN Radio and Jail General Improvement.

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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

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

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

Agency Funds - Agency Funds are used to account for assets held by the entity as an agent for individuals, private organizations, other governmental units, and other funds. The following agency funds are reported with other funds in the aggregate: Treasurer (Administration of Justice, Treasurer's Commission, Collector's Interest, Common School, Regional Library, Cities, Improvement Districts and Property Tax Relief), Collector (Current Tax, Delinquent Tax and Bankruptcy), Sheriff (Fee, Bond and Fine, Circuit Bond, Juvenile Probation and Commissary), County Clerk (Fee and Trust) and Circuit Clerk (Fee, Trust, Circuit Bond and Child Support).

**C. Basis of Accounting**

The financial statements are presented using a regulatory basis of accounting. This basis recognizes assets, liabilities, fund balance, receipts, and disbursements when they result from cash transactions with a provision for settlements pending. This regulatory basis differs from accounting principles generally accepted in the United States of America.

As a result of the use of this regulatory basis of accounting, certain assets (such as accounts receivable, interfund receivables, and capital assets) and their related receipts and certain liabilities (such as accounts payable, interfund payables, and long-term debt) and their related disbursements are not recorded in these financial statements.

**D. Assets, Liabilities and Fund Balances**

**Cash and Cash Equivalents**

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit.

**Liabilities**

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

**Equity Classification**

**Fund Balance**

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

**E. Property Taxes**

A lien attaches to the real property in January and on personal property in June of each year. Property taxes are collectible beginning the first business day of March of the subsequent year, but are not considered delinquent until after October 10.

LONOKE COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

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

**F. Budget Law**

1. Legal Requirements

State law requires that the Quorum Court, before the end of each fiscal year, make appropriations, by ordinance, for the disbursements of County government for the following year. The Quorum Court may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to the year-end.

2. Accounting

The County prepared an annual budget on the regulatory basis for the General Fund, Road Fund and the other Special Revenue Funds except for the Sheriff's Commissary Funds.

**NOTE 2: Cash**

Deposit risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk have not been provided as required by Governmental Accounting Standards Board Statement No. 40.

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

State law generally requires that county funds be deposited in federally insured banks located in the State of Arkansas. The County 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.

**NOTE 4: Legal Debt Limit - Tax Secured Bond Issues**

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2005, the legal debt limit for the County was \$50,798,120. There were no property tax secured bond issues.

**NOTE 5: Reserved Fund Balance**

Reserved fund balance consists of the following:

	December 31, 2005
<u>Road</u>	\$ 495,249
<u>Other Funds in the Aggregate</u>	
Special Revenue Funds:	
911 Emergency	\$ 66,184
Radio	25,452
Boating safety	42,766
Recorder's cost	202,098
Child support	28,114
Juvenile probation	15,230
Victim witness	2,775
DLEP grant	584
Cops Fast grant	476
Cops More grant	14,009
Juvenile court representation	3,168

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 5: Reserved Fund Balance (Continued)**

	December 31, 2005
<u>Other Funds in the Aggregate (Continued)</u>	
Special Revenue Funds: (Continued)	
Treasurer's automation	\$ 32,137
Sheriff's special crime	23,098
Sheriff's drug control	3,265
County Clerk's cost	14,921
Law enforcement block grant	1,182
Collector's automation	182,001
Prosecutor's grant	47,778
Solid waste	113,591
Court automation	9,045
Jail maintenance	33,667
County library	786,091
Radio tower lease	2,875
Woodlawn grant	1,000
Public safety	103
Walters Chapel grant	1,181
Commissary	2,798
Total Special Revenue	1,655,589
Capital Projects:	
CSEPP building	200,000
AWIN radio	472,120
Jail general improvement	295,201
Total Capital Projects	967,321
Total Other Funds in the Aggregate	\$ 2,622,910

**NOTE 6: Commitments**

Total commitments consist of the following at December 31, 2005:

	December 31, 2005
Long-Term Debt	\$ 652,632

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 6: Commitments (Continued)**

Long-Term Debt

Long-Term Debt at December 31, 2005 is comprised of the following:

	<u>December 31, 2005</u>
Lease-purchase agreement with Governmental Capital Corporation for the purchase of a gradall and Case backhoe, monthly payments of \$4,179.60 for 60 months through January 2007. Payments are to be made from the Road Fund.	\$ 48,828
Note payable to First State Bank of Lonoke for the purchase of Sheriff's vehicles, three annual payments of \$28,141.71. Payments are to be made from the County General Reserve Fund.	27,041
Note payable to First State Bank of Lonoke for the purchase of Sheriff's vehicles, four annual payments of \$11,093.55. Payments are to be made from the County General Reserve Fund.	30,879
Note payable to First State Bank of Lonoke for the purchase of five (5) dump trucks, one annual payment of principal due June 17, 2006 with interest payments quarterly. Payments are to be made from the Road Fund.	<u>545,884</u>
Total Long-Term Debt	<u><u>\$ 652,632</u></u>

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

Compensated Absences

Compensated absences do not vest or accumulate.

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

<u>Years Ending December 31,</u>	<u>Notes</u>	<u>Leases</u>	<u>Total</u>
2005	\$ 601,450	\$ 50,155	\$ 651,605
2006	11,094		11,094
2007	11,035		11,035
Total Obligations	<u>623,579</u>	<u>50,155</u>	<u>673,734</u>
Less Interest	<u>19,775</u>	<u>1,327</u>	<u>21,102</u>
Total Principal	<u><u>\$ 603,804</u></u>	<u><u>\$ 48,828</u></u>	<u><u>\$ 652,632</u></u>

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 7: Joint Venture: Regional Library**

Lonoke and Prairie Counties entered into an agreement in accordance with Ark. Code Ann. 13-2-401 to establish the Lonoke and Prairie County Regional Library. The agreement states that the Regional Library Board shall employ a regional Librarian approved by the Arkansas Library Commission to serve for such time and on such terms as the Board may prescribe and to be paid from the regional budget. County and branch personnel shall be recommended by the County Library Board and shall be employed only after approval of the regional librarian and the Arkansas Library Commission with such salaries to be paid from county funds. The parties also agreed that each county in the region should contribute a fair share of the expenses. The fair share of expenses shall be determined each year at the July meeting of the Regional Library Board and shall be payable to the Regional Library within ten (10) days after the tax settlements in each county. The Board did not request any funds from the County Library. Separate financial statements of the Regional Library are not available.

**NOTE 8: Risk Management**

The County 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 County participates in the Association of Arkansas Counties Program (public entity risk pools) for coverage in the following areas:

Workers' Compensation - This program provides statutory benefits for losses incurred by County officials, employees and volunteer fire fighters while performing work for the County. Rates for counties participating in this program are revised annually based on the cost experience of the particular county or group as determined by the Workers' Compensation Commission.

Vehicle Program

- A. Liability - This program may pay all sums the County legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered County vehicle and for which the County 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 County shall pay into the program each year a charge established annually by the Risk Management Fund Board for covered County vehicles owned or leased by the County.
- B. Physical Damage - This program covers vehicles (excluding mobile equipment) which are the property of the participating county. 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 \$500 per occurrence. The County agrees to pay into the program each year a service charge established annually by the Risk Management Fund Board for covered property.

General Liability Program - The program shall provide legal defense in civil rights suits against the County government of a participating county and pay judgments imposed on County officials and employees and the County government and county-formed boards and commissions. Coverage is limited to \$350,000 per case with an annual aggregate of \$350,000. The County agrees to pay into the program each year a charge of 60 cents per capita. Each county also agrees to pay the first \$2,000 of the aggregate cost for all expenses on each lawsuit.

The County 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 County Aid Fund. There is a \$1,000 deductible per occurrence.

LONOKE COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

**NOTE 9: Arkansas Public Employees Retirement System**

Plan Description. The County contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. 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.

**NOTE 10: Excess Commissions Distributed**

Excess commissions distributed represents excess commissions that were deposited in the General Fund in the prior year and distributed to the applicable funds/taxing entities in the current year.

LONOKE COUNTY, ARKANSAS  
OTHER SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Unaudited)

Schedule 1

	<u>December 31, 2005</u>
Land	\$ 30,118
Buildings	2,164,539
Equipment	<u>4,278,950</u>
Total	<u>\$ 6,473,607</u>

The capital assets of the County Library are not reflected on this schedule because this information was not available.