

**Faulkner County, Arkansas**

**Financial Statements (Modified Cash Basis)  
and Other Reports**

**December 31, 2002**

LEGISLATIVE JOINT AUDITING COMMITTEE

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Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Lavery  
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

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

We have audited the accompanying financial statements of Faulkner County, Arkansas, as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America 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 opinion.

As described in Note 1(C), the County prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above do not include the financial information for the County Beautification Commission, a component unit, and compensated absences and do not disclose certain required information concerning deposits and investments which should be included in order to conform with the basis of accounting described in Note 1(C). If the omitted financial information for the County Beautification Commission had been included, the component unit (County Beautification Commission) assets, liabilities, revenues and expenses would have increased by \$24,368, \$0, \$53,732 and \$60,432, respectively. The effects of omitting the required financial information concerning compensated absences were not determined.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from modified cash transactions of Faulkner County, Arkansas, as of December 31, 2002, and the revenues and expenditures for the year then ended on the modified cash basis of accounting described in Note 1(C), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2004 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 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.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
January 8, 2004  
LOCO02302

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
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

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

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

We have audited the financial statements of Faulkner County, Arkansas, as of and for the year ended December 31, 2002 and have issued our report thereon dated January 8, 2004. In our report, our opinion was qualified because of the effects on the financial statements of not including all financial information of the reporting entity and the required information concerning compensated absences in the financial statements. Also, the 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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### 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 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 County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The County 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 2002:

County Judge: John Wayne Carter  
Treasurer: Kathy Barrett  
Sheriff: Marty Montgomery  
Tax Collector: Mark Wilcox  
County Clerk: Melinda Reynolds  
Circuit Clerk: Sharon Rimmer

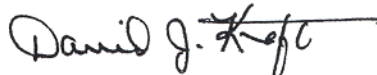
Our audit procedures indicated that the offices of **County Judge, Treasurer, Tax Collector** and **Circuit Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the offices of **Sheriff** and **County Clerk** and are cited below:

The **Sheriff's Office** did not maintain accountability over the Inmate Trust Fund. Receipts were not deposited in a timely manner. All receipt books could not be located. Cash receipt and disbursement journals could not be reconciled to deposits and withdrawals on bank statements. A subsidiary ledger of inmate accounts was not properly maintained. Bookkeeping responsibilities were assigned to employees that did not have proper training in bookkeeping techniques. Because of these deficiencies, the remaining balances due inmates could not be determined. This was reported in the prior audit.

Accounting records were not maintained for trust funds in the custody of the **County Clerk**. Prenumbered receipts were not written for trust funds received. Cash receipt and disbursement journals have not been established. Subsidiary ledgers have not been maintained for trust accounts. Tracking and control of trust funds cannot be accomplished without proper accounting records. This was reported in the prior audit.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, County 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  
January 8, 2004

FAULKNER COUNTY, ARKANSAS

Exhibit A

COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS -  
MODIFIED CASH BASIS  
DECEMBER 31, 2002

	Governmental Fund Types			Fiduciary Fund Type	Account Groups		Totals (Memorandum Only) Primary Government	Component Units		Totals (Memorandum Only) Reporting Entity
	General	Special Revenue	Capital Projects	Agency	General Fixed Assets	General Long-Term Debt	December 31, 2002	County Library Board	County Museum Commission	December 31, 2002
<b>ASSETS AND OTHER DEBITS</b>										
Cash and cash equivalents	\$ 2,900,922	\$ 9,837,103	\$ 280,039	\$ 2,824,614			\$ 15,842,678	\$ 545,981	\$ 44,625	\$ 16,433,284
Investments (Certificates of deposit)				163,003			163,003		11,252	174,255
Interfund receivables		25,770					25,770			25,770
Land and buildings					\$ 7,261,865		7,261,865	4,118,744	20,000	11,400,609
Equipment					5,999,682		5,999,682	400,228	4,615	6,404,525
Amount to be provided for retirement of general long-term debt						\$ 673,071	673,071			673,071
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 2,900,922</b>	<b>\$ 9,862,873</b>	<b>\$ 280,039</b>	<b>\$ 2,987,617</b>	<b>\$ 13,261,547</b>	<b>\$ 673,071</b>	<b>\$ 29,966,069</b>	<b>\$ 5,064,953</b>	<b>\$ 80,492</b>	<b>\$ 35,111,514</b>
<b>LIABILITIES AND FUND EQUITY</b>										
Liabilities:										
Accounts payable		\$ 24,432					\$ 24,432		\$ 282	\$ 24,714
Settlement pending				\$ 2,804,535			2,804,535			2,804,535
Due to other agencies				183,082			183,082			183,082
Interfund payables	\$ 25,770						25,770			25,770
Notes payable						\$ 673,071	673,071			673,071
Total Liabilities	<u>25,770</u>	<u>24,432</u>		<u>2,987,617</u>		<u>673,071</u>	<u>3,710,890</u>		<u>282</u>	<u>3,711,172</u>
Fund Equity:										
Investment in general fixed assets					\$ 13,261,547		13,261,547	\$ 4,518,972	24,615	17,805,134
Fund balances:										
Unreserved:										
Undesignated	2,875,152	9,838,441	\$ 280,039				12,993,632	545,981	55,595	13,595,208
Total Fund Equity	<u>2,875,152</u>	<u>9,838,441</u>	<u>280,039</u>		<u>13,261,547</u>		<u>26,255,179</u>	<u>5,064,953</u>	<u>80,210</u>	<u>31,400,342</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 2,900,922</b>	<b>\$ 9,862,873</b>	<b>\$ 280,039</b>	<b>\$ 2,987,617</b>	<b>\$ 13,261,547</b>	<b>\$ 673,071</b>	<b>\$ 29,966,069</b>	<b>\$ 5,064,953</b>	<b>\$ 80,492</b>	<b>\$ 35,111,514</b>

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

FAULKNER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit B

	Governmental Fund Types			Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Primary Government	County Library Board	County Museum Commission	Reporting Entity
				Year Ended December 31, 2002			Year Ended December 31, 2002
<b>REVENUES</b>							
Intergovernmental revenues - state	\$ 1,082,330	\$ 2,075,054		\$ 3,157,384	\$ 160,753		\$ 3,318,137
Intergovernmental revenues - federal		265,960		265,960			265,960
Property taxes	2,272,162	1,135,959		3,408,121	592,703	\$ 52,153	4,052,977
Sales taxes		4,540,250		4,540,250			4,540,250
Fines, forfeitures and costs	1,194,957	272,906		1,467,863			1,467,863
Investment income	27,720	91,234	\$ 4,446	123,400	6,938	227	130,565
Officers' fees	115,864	583,988		699,852			699,852
Jail fees	771,559			771,559			771,559
911 fees		483,096		483,096			483,096
Treasurer's commission	175,237	27,537		202,774			202,774
Collector's commission	351,093	89,119		440,212			440,212
Taxes apportioned - Assessor's salary and expense	1,042,087			1,042,087			1,042,087
Other	440,679	137,028		577,707	89,443	34,511	701,661
<b>TOTAL REVENUES</b>	<b>7,473,688</b>	<b>9,702,131</b>	<b>4,446</b>	<b>17,180,265</b>	<b>849,837</b>	<b>86,891</b>	<b>18,116,993</b>
Less: Treasurer's commission	101,592	88,010	0	189,602	15,161	1,047	205,810
<b>NET REVENUES</b>	<b>7,372,096</b>	<b>9,614,121</b>	<b>4,446</b>	<b>16,990,663</b>	<b>834,676</b>	<b>85,844</b>	<b>17,911,183</b>
<b>EXPENDITURES</b>							
Current:							
General government	2,972,101	455,367		3,427,468			3,427,468
Law enforcement	3,586,024	1,491,213		5,077,237			5,077,237
Highways and streets		4,943,535		4,943,535			4,943,535
Public safety	54,602	495,852		550,454			550,454
Health	41,500			41,500			41,500
Recreation and culture	9,500		9,025	18,525	937,050	49,762	1,005,337
Social services	29,779			29,779			29,779
Soil conservation		185,815		185,815			185,815
Total Current	6,693,506	7,571,782	9,025	14,274,313	937,050	49,762	15,261,125
Debt service:							
Bond principal	168,268			168,268			168,268
Bond interest and fiscal charges	33,439			33,439			33,439
<b>TOTAL EXPENDITURES</b>	<b>6,895,213</b>	<b>7,571,782</b>	<b>9,025</b>	<b>14,476,020</b>	<b>937,050</b>	<b>49,762</b>	<b>15,462,832</b>

FAULKNER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2002

Exhibit B

	Governmental Fund Types			Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Primary Government Year Ended December 31, 2002	County Library Board	County Museum Commission	Reporting Entity Year Ended December 31, 2002
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 476,883	\$ 2,042,339	\$ (4,579)	\$ 2,514,643	\$ (102,374)	\$ 36,082	\$ 2,448,351
OTHER FINANCING SOURCES (USES)							
Transfers in	175,574	32,368		207,942			207,942
Transfers out	(33,332)	(174,610)		(207,942)			(207,942)
Prior year excess commissions returned	117,063	69,785		186,848	32,975		219,823
Note proceeds	231,647			231,647			231,647
TOTAL OTHER FINANCING SOURCES (USES)	490,952	(72,457)		418,495	32,975		451,470
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	967,835	1,969,882	(4,579)	2,933,138	(69,399)	36,082	2,899,821
FUND BALANCES - JANUARY 1	1,907,317	7,868,559	284,618	10,060,494	615,380	19,513	10,695,387
FUND BALANCES - DECEMBER 31	\$ 2,875,152	\$ 9,838,441	\$ 280,039	\$ 12,993,632	\$ 545,981	\$ 55,595	\$ 13,595,208

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



FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

The County is a political subdivision of the state governed by an elected quorum court. The financial statements of the reporting entity include those of the County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity as discretely presented component units because of the significance of their operational or financial relationships with the County.

*Discretely presented component units*

Faulkner County Library Board – County Ordinance No. 78-8 established the Faulkner County Library Board as an administrative board pursuant to Ark. Code Ann. 14-14-705. The Library receives a one (1) mill property tax on both real estate and personal property, which is collected by the County. The County Library Board is authorized to receive gifts, bequests and/or devices to be used in accordance with Ark. Code Ann. 13-2-404.

Faulkner County Beautification Committee – County Resolution No. 99-3 established the Faulkner County Beautification Committee as an official Committee of the County accountable to the County Judge. The Committee is funded through donations and state grants obtained through the County.

Faulkner County Museum Commission – County Ordinance No. 92-16 established the Faulkner County Museum Commission as an administrative commission pursuant to Ark. Code Ann. 13-5-501. The County Museum Commission is authorized to accept gifts, grants and donations of real and personal property from the Federal government, the State of Arkansas and from other public or private groups or individuals to be used in accordance with Ark. Code Ann. 13-5-503. Ordinance No. 01-11 authorized the levying of a voluntary tax of one (1) mill on real and personal property for the support and operation of the County Museum.

Complete financial information may be obtained from the County Museum on the Courthouse Square, the County Library at 1900 Tyler Street in Conway and the County Treasurer at the courthouse.

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The following types of funds and account groups are recognized in the accompanying financial statements.

Governmental Funds

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

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.

Fiduciary Funds

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.

Account Groups

General Fixed Assets - This group of accounts is established to account for all fixed assets of the entity.

General Long-Term Debt - This group of accounts is established to account for all long-term debt of the entity.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. All funds are accounted for using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Their revenues are recognized when collected rather than when earned. Expenditures are generally recognized when the related fund liability is incurred. An exception to the general rule is principal and interest on general long-term debt which is recognized when due. General Fixed Assets and General Long-Term Debt are included as account groups.

D. Fixed Assets

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

E. Property Taxes

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

F. Investments

Investments are reported at cost.

G. Fund Equity

Fund Balance - Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

H. Budgetary Controls

1. Legal Requirements

State law requires that the Quorum Court, before the end of each fiscal year, make appropriations, by ordinance, for the expenses of county government (General and Special Revenue Funds) 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 modified cash basis for the General Fund and all the Special Revenue Funds except for the Communications Facility and Equipment, Court Related Technology and Damascus Martinville Water Funds and the Capital Projects Fund. Formal budgetary policies are not employed for the Fiduciary Fund Types.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Budgetary Controls (Continued)

2. Accounting (Continued)

The following table reflects budget versus actual comparisons by fund for the year ended December 31, 2002:

Fund	Budgeted Revenues and Other Sources	Actual Revenues and Other Sources	Excess	Appropriations	Actual Expenditures and Other Uses	Excess
General	\$ 6,227,008	\$ 7,997,972	\$ 1,770,964	\$ 7,214,181	\$ 6,928,545	\$ 285,636
Special Revenue:						
Road	2,710,942	3,216,629	505,687	3,728,625	2,936,556	792,069
Child Support	17,940	18,541	601	49,700	37,548	12,152
Juvenile Court Representation	571	325	(246)			
County Clerk's Cost	32,554	39,257	6,703	26,100	36,377	(10,277)
Treasurer's Automation	17,250	27,854	10,604	26,906	16,266	10,640
Jail Juvenile Grant	15,124	19,021	3,897		6,651	(6,651)
Law Enforcement Block Grant	20,000		(20,000)	26,543	36	26,507
Intensive Supervisor	15,337	15,344	7	15,337	15,212	125
Mosquito Abatement	15,583	15,606	23	15,583	4,949	10,634
Collector's Automation	89,000	89,601	601	15,000	9,996	5,004
County Road Sales Tax	1,806,300	2,286,070	479,770	2,201,579	2,006,979	194,600
Criminal Justice Sales Tax	1,821,854	2,326,978	505,124	1,026,209	971,141	55,068
Emergency Squad	42,898	43,332	434	92,600	65,141	27,459
Law Enforcement Equipment Grant	6,543	26,606	20,063		26,542	(26,542)
911	433,090	489,196	56,106	463,234	378,771	84,463
Juvenile Probation Fees	86,967	81,227	(5,740)	107,096	107,692	(596)
Public Defender	24,002	26,173	2,171	33,630	31,460	2,170
County Recorder's Cost	311,310	507,024	195,714	413,083	375,809	37,274
Soil Conservation	85,563	52,834	(32,729)	162,356	185,815	(23,459)
Act 1262	3,063	7,380	4,317		5,000	(5,000)
Public Defender Investigator	9,230	9,180	(50)			
Victims of Crime	24,676	27,059	2,383	24,898	24,659	239
Cops Grant	244,704	220,543	(24,161)	274,361	259,136	15,225
Breathalyzer	1,126	1,236	110			
Jail Fees	144,656	145,197	541		141,140	(141,140)
Communications Facility and Equipment		62,505	62,505		53,643	(53,643)
Court Related Technology		2,575	2,575		2,882	(2,882)
Damascus Martinville Water		46,991	46,991		46,991	(46,991)
Capital Projects	291,854	4,446	(287,408)	218,709	9,025	209,684

I. Cash Equivalents

Cash equivalents are considered to be all highly liquid investments (including restricted assets) with a maturity of three (3) months or less when purchased.

NOTE 2: Memorandum Totals

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

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 3: Public Fund Deposits and Investments

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

(A) Information disclosing whether deposits are:

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

(B) Information disclosing whether investments are:

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

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

NOTE 4: Legal or Contractual Provisions for Deposits and Investments

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 5: Fund Presentation

The General Fund heading as it appears in the financial statements includes the following accounts: General, Drug-Buy, Commissary, Tax Assessor's Late Assessment Fee, Beaverfork Fire Department and Rural Fire Protection.

The Special Revenue Fund heading as it appears in the financial statements includes the following funds: Road, Law Enforcement Block Grant, Jail Fees, Public Defender, Emergency Squad, Breathalyzer, Child Support, Communications Facility and Equipment, 9-1-1, Victims of Crime, Juvenile Probation Fees, Public Defender Investigator Fee, Soil Conservation, COPS Grant, County Recorder's Cost, Act 1262 of 1995, Juvenile Jail Grant, Juvenile Court Representation, County Treasurer's Automation, Community Policing Grant, Road Sales Tax, Criminal Justice Sales Tax, County Clerk's Cost, Law Enforcement Block Grant Equipment, Court Related Technology, Collector's Automation, Intensive Supervisor, Damascus Martinville Water and Mosquito Abatement.

FAULKNER COUNTY, ARKANSAS  
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NOTE 6: Interfund Balances

Individual fund interfund receivable and payable balances are as follows:

Fund	December 31, 2002	
	Interfund Receivables	Interfund Payables
General Fund		\$ 25,770
Special Revenue Funds:		
9-1-1	\$ 23,612	
Communications Facility and Equipment	2,158	
Totals	<u>\$ 25,770</u>	<u>\$ 25,770</u>

NOTE 7: Changes in General Fixed Assets

	Balance January 1, 2002 as Previously Reported	Restatement Adjustment	Balance January 1, 2002 as Restated	Additions	Deletions	Balance December 31, 2002
Land and buildings	\$ 11,012,015	\$ (4,138,744)	\$ 6,873,271	\$ 568,812	\$ (180,218)	\$ 7,261,865
Equipment		6,645,627	6,645,627	637,080	(1,283,025)	5,999,682
Construction in progress	260,408	(31,310)	229,098	319,714	(548,812)	
Totals	<u>\$ 11,272,423</u>	<u>\$ 2,475,573</u>	<u>\$ 13,747,996</u>	<u>\$ 1,525,606</u>	<u>\$ (2,012,055)</u>	<u>\$ 13,261,547</u>

NOTE 8: Changes in Component Unit Fixed Assets

Library Fund	Balance January 1, 2002 as Previously Reported	Restatement Adjustment	Balance January 1, 2002 as Restated	Additions	Deletions	Balance December 31, 2002
Land and buildings		\$ 4,118,744	\$ 4,118,744			\$ 4,118,744
Equipment		507,207	507,207	\$ 32,025	\$ 139,004	400,228
Totals	<u>\$ 0</u>	<u>\$ 4,625,951</u>	<u>\$ 4,625,951</u>	<u>\$ 32,025</u>	<u>\$ 139,004</u>	<u>\$ 4,518,972</u>

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NOTE 8: Changes in Component Unit Fixed Assets (Continued)

Museum	Balance January 1, 2002 as Previously Reported	Restatement Adjustment	Balance January 1, 2002 as Restated	Additions	Deletions	Balance December 31, 2002
Land and buildings		\$ 20,000	\$ 20,000			\$ 20,000
Equipment		2,594	2,594	\$ 2,021		4,615
Totals	<u>\$ 0</u>	<u>\$ 22,594</u>	<u>\$ 22,594</u>	<u>\$ 2,021</u>	<u>\$ 0</u>	<u>\$ 24,615</u>

NOTE 9: Compensated Absences

Compensated absences do vest or accumulate. Accruals for compensated absences have not been reflected in the accompanying financial statements. The effects of omitting this information were not determined.

NOTE 10: Long-Term Debt

General long-term debt at December 31, 2002 is comprised of the following:

	<u>December 31, 2002</u>
Promissory note withdraw feature with Simmons First National Bank, proceeds to be used to purchase and renovate circuit court facilities, 5% interest, five annual payments of equal installments of principal plus accrued interest, first payment due August 21, 2002.	<u>\$ 673,071</u>

NOTE 11: Changes in General Long-Term Debt

The following is a summary of transactions of the County for the year ended December 31, 2002:

	<u>2002</u>
General Long-Term Debt at January 1	\$ 609,692
Additions: Notes payable	231,647
Deletions: Note payments	<u>168,268</u>
General Long-Term Debt at December 31	<u>\$ 673,071</u>

FAULKNER COUNTY, ARKANSAS  
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NOTE 12: Debt Service Requirements to Maturity – Notes Payable

Annual requirements to amortize outstanding note payable are as follows:

Years Ending December 31,	December 31, 2002		
	Principal	Interest	Total
2003	\$ 168,053	\$ 33,654	\$ 201,707
2004	176,456	25,251	201,707
2005	185,279	16,428	201,707
2006	143,283	7,155	150,438
Totals	<u>\$ 673,071</u>	<u>\$ 82,488</u>	<u>\$ 755,559</u>

NOTE 13: 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, 2002, the legal debt limit for the County was \$76,072,733. There were no property tax secured bond issues.

NOTE 14: Prior Year Restatement

The General Fixed Assets account group of the primary government was restated at January 1, 2002 in the amount of \$2,475,573 in order to include equipment and remove component unit land and buildings.

The General Fixed Assets account group of the component unit, County Library, was restated at January 1, 2002 in the amount of \$4,625,951 in order to include land, buildings and equipment.

The General Fixed Assets account group of the component unit, County Museum, was restated at January 1, 2002 in the amount of \$22,594 in order to include land, buildings and equipment.

NOTE 15: Joint Venture: Faulkner – Van Buren Regional Library

Faulkner and Van Buren Counties entered into an agreement in June 1978, in accordance with Ark. Code Ann. 13-2-401 to establish the Faulkner - Van Buren 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. The County Library paid \$0 to the Regional Library in 2002. Separate financial statements of the Faulkner - Van Buren Regional Library are not available.

NOTE 16: 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.

FAULKNER COUNTY, ARKANSAS  
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NOTE 16: Risk Management (Continued)

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 may participate in the Secondary Loss Fund that provides additional coverage.

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.

NOTE 17: 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. The current employer rate is 10% of annual covered payroll. The County's contributions to PERS for the years ending December 31, 2002, 2001 and 2000 were \$501,581, \$376,471 and \$286,327, respectively, equal to the required contributions for each year.