

Faulkner County, Arkansas

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

December 31, 2004

LEGISLATIVE JOINT AUDITING COMMITTEE



FAULKNER COUNTY, ARKANSAS
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet – Regulatory Presentation – Modified Cash Basis	A
Combined Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Presentation – Modified Cash Basis	B
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual – General and Road Funds – Regulatory Presentation – Modified Cash 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 Laverly
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

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

We have audited the accompanying financial statements of the general fund, road fund, and other funds in the aggregate of Faulkner County, Arkansas, as of and for the year ended December 31, 2004, 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 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 opinion.

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 Annotated §10-4-202, 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 Faulkner County, Arkansas, as of December 31, 2004, 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 include the financial information for the County Beautification Committee, which should be included in other funds in the aggregate, and do not disclose certain required information concerning deposits, which should be included in order to conform with the basis of accounting described in Note 1(C). The effects of the omitted financial information 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 respective modified cash basis financial position of the general fund, road fund, and other funds in the aggregate of Faulkner County, Arkansas, as of December 31, 2004, and the respective changes in the modified cash basis financial position, and the budgetary results for the general and road funds for the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2005 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Faulkner 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, express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
July 1, 2005
LOCO02304

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

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, 2004 and have issued our report thereon dated July 1, 2005. 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 deposits. Also, our opinion on the other funds in the aggregate was qualified because of the effects on the financial statements of not including the County Beautification Committee. 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 opinion 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 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 conditions described below to be material weaknesses.

1. To ensure the proper safeguarding of assets, financial accounting duties relating to initialing, 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 initialing, receipting, depositing, disbursing and recording cash transactions to the extent possible with the current staffing levels.

2. After receiving allegations from a Quorum Court member that Sheriff's Office funds were improperly disbursed, the Twentieth Judicial District Prosecuting Attorney requested we examine certain expenditures for the period January 1, 2003 through December 31, 2004 to determine propriety. Several improper transactions, as discussed below, were made in the Sheriff's Office as a result of not adhering to proper disbursement procedures. State laws and proper internal controls require county disbursements be supported with adequate documentation, which clearly indicates the business purpose of the expense.

Our review of selected disbursements revealed the Sheriff's Office made unauthorized credit card charges and other disbursements totaling \$23,006 for nonbusiness credit card charges, college tuition and unearned leave compensation. Of these unauthorized disbursements, \$7,682 has been reimbursed, leaving an amount due to the County of \$15,324. We recommend the responsible individuals reimburse the County.

2. (Continued)

The Sheriff's Office also paid \$18,762 for credit card charges made by the Sheriff and other employees that were not adequately documented. We recommend the Sheriff, County Attorney and Quorum Court review these charges and determine the business purpose for each charge. For disbursements unsubstantiated for Sheriff's Office purposes, we recommend the individuals responsible reimburse the County.

The Faulkner County Personnel Policy requires employees who have exhausted all leave balances and request absence from work be granted inactive employee status without pay. The Sheriff allowed an employee, Ms. Tammy Weaver, whose leave balances were exhausted, to be placed on administrative leave with pay of \$12,275 during an eight-month period. In addition, another employee, Ms. Allison Hendrix, was allowed to attend college during normal working hours without using annual leave. We were unable to determine the amount of compensation Ms. Hendrix received while away from work because Ms. Hendrix's time sheets did not accurately reflect actual hours worked. We recommend the County Attorney and Quorum Court review these improper compensation payments and determine corrective action.

According to the Sheriff's Office bookkeeper, the personal cellular phone charges of employees were paid directly to vendors based on rank (\$50 plus applicable taxes for sergeants and above and \$30 plus applicable taxes for all other employees). During 2004, our review indicated \$19,917 was paid for forty-six (46) employee cellular phone charges, which in some cases exceeded the office guidelines. As required by Internal Revenue Service (IRS) regulations, the County did not report this taxable fringe benefit on the employees' W-2 forms. We recommend the Sheriff, in conjunction with the Quorum Court, establish an official cellular phone usage and payment policy and contact the IRS to determine corrective action relating to the unreported taxable fringe benefit paid on the employees' behalf. In addition, we recommend the Quorum Court review personal cellular phone charges of employees paid prior to 2004 to determine if additional taxable fringe benefits were paid but not properly reported to the IRS.

After reviewing invoices coded as Jail Food, we noted numerous instances where food items purchased from Wal-Mart and Sam's Wholesale Club were in quantities too small to serve the jail population. We recommend the Quorum Court review these invoices for propriety, which totaled \$13,785.

Based on the findings reported above, we also recommend the Quorum Court review all credit card charges made since the cards were acquired to determine the validity of each charge and recover any funds due to the County. To improve internal controls relating to disbursements, we further recommend the Sheriff and Quorum Court exercise fiscal oversight responsibilities and that the Quorum Court implement policies relating to credit card use and travel expenses.

We have forwarded our findings to the Twentieth Judicial District Prosecuting Attorney for review and appropriate action. To determine if criminal charges were necessary against the Sheriff, the Judicial District appointed a Special Prosecutor, who on October 3, 2005, concluded evidence did not support legal action against the Sheriff.

The Sheriff indicated corrective action has been taken to improve management oversight and disbursement controls. The Sheriff also stated he plans to have legal counsel review our findings.

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 no 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 2004:

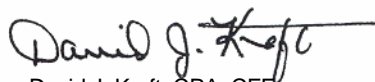
County Judge: John Wayne Carter
Treasurer: Regina Oakley
Sheriff: Marty Montgomery
Tax Collector: Steve Simon
County Clerk: Melinda Reynolds
Circuit Clerk: Sharon Rimmer

Our audit procedures indicated that the offices listed above were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with accepted accounting practices were noted in the Offices of **County Judge** and **Sheriff** and are reported below:

The **County** computers operating on the PICK System and the **Sheriff's** computer system did not have adequate access security controls. Weak access security controls could allow unauthorized changes to be made which increase the risk of fraud. Additionally, data integrity controls were inadequate. This lack of controls allows unauthorized manipulations of data which increases the risk of fraud. The County does not have a disaster recovery or business continuity plan for computer processing. This situation could cause the offices to be without computer processing for an extended period of time in the event of a disaster or major business interruption.

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 are 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

A handwritten signature in black ink that reads "David J. Kraft". The signature is written in a cursive style with a long horizontal stroke extending to the right.

David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
July 1, 2005

FAULKNER COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - REGULATORY PRESENTATION - MODIFIED CASH BASIS
 DECEMBER 31, 2004

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 2,435,777	\$ 3,375,734	\$ 13,167,316
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending			\$ 2,587,816
Fund Balances:			
Reserved		\$ 3,375,734	10,579,500
Unreserved:			
Undesignated	\$ 2,435,777		
Total Fund Balances	2,435,777	3,375,734	10,579,500
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,435,777	\$ 3,375,734	\$ 13,167,316

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

FAULKNER COUNTY, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY PRESENTATION - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 1,154,422	\$ 2,085,103	\$ 206,959
Federal aid			2,283,268
Property taxes	2,730,320	1,244,770	910,485
Sales taxes			5,150,244
Fines, forfeitures and costs	1,113,926		363,879
Interest	15,107	6,741	94,207
Officers' fees	141,285		640,300
Jail fees	456,798		
911 fees			514,054
Treasurer's commission	168,030		30,258
Collector's commission	335,693		
Taxes apportioned - Assessor's salary and expense	771,345		
Other	533,573	91,790	163,089
 TOTAL RECEIPTS	 7,420,499	 3,428,404	 10,356,743
 Less: Treasurer's commission	 104,440	 66,964	 50,344
 NET RECEIPTS	 7,316,059	 3,361,440	 10,306,399
 DISBURSEMENTS			
Current:			
General government	2,789,672		612,041
Law enforcement	4,665,070		2,783,117
Highways and streets		2,932,432	1,876,030
Public safety	68,745		2,906,848
Health	50,500		
Recreation and culture	5,500		1,104,994
Social services	40,149		
Soil conservation			190,351
Total Current	7,619,636	2,932,432	9,473,381
Debt service:			
Principal reduction on note payable	168,130		
Interest imputed on note payable	25,403		
 TOTAL DISBURSEMENTS	 7,813,169	 2,932,432	 9,473,381
 EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	 (497,110)	 429,008	 833,018

FAULKNER COUNTY, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY PRESENTATION - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit B

	General	Road	Other Funds In The Aggregate
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 188,670	\$ 8,098	\$ 5,006,837
Transfers out	(37,252)		(5,166,353)
Excess commissions	137,855	72,416	55,768
TOTAL OTHER FINANCING SOURCES (USES)	289,273	80,514	(103,748)
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(207,837)	509,522	729,270
FUND BALANCES - JANUARY 1	2,643,614	2,866,212	9,850,230
FUND BALANCES - DECEMBER 31	\$ 2,435,777	\$ 3,375,734	\$ 10,579,500

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

FAULKNER COUNTY, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,045,169	\$ 1,154,422	\$ 109,253	\$ 1,931,000	\$ 2,085,103	\$ 154,103
Property taxes	2,395,350	2,730,320	334,970	993,850	1,244,770	250,920
Fines, forfeitures and costs	778,150	1,113,926	335,776	4,090		(4,090)
Interest	12,169	15,107	2,938	336	6,741	6,405
Officers' fees	103,270	141,285	38,015			
Jail fees	475,500	456,798	(18,702)			
Treasurer's commission	175,000	168,030	(6,970)			
Collector's commission	363,800	335,693	(28,107)			
Taxes apportioned - Assessor's salary and expense	712,000	771,345	59,345			
Other	518,138	533,573	15,435	39,500	91,790	52,290
TOTAL RECEIPTS	6,578,546	7,420,499	841,953	2,968,776	3,428,404	459,628
Less: Treasurer's commission		104,440	(104,440)		66,964	(66,964)
NET RECEIPTS	6,578,546	7,316,059	737,513	2,968,776	3,361,440	392,664
DISBURSEMENTS						
Current:						
General government	3,253,910	2,789,672	464,238			
Law enforcement	4,809,467	4,665,070	144,397			
Highways and streets				3,889,056	2,932,432	956,624
Public safety	82,733	68,745	13,988			
Sanitation						
Health	50,500	50,500				
Recreation and culture	5,500	5,500				
Social services	40,169	40,149	20			
Total Current	8,242,279	7,619,636	622,643	3,889,056	2,932,432	956,624
Debt service:						
Principal reduction on note payable		168,130	(168,130)			
Interest imputed on note payable		25,403	(25,403)			
TOTAL DISBURSEMENTS	8,242,279	7,813,169	429,110	3,889,056	2,932,432	956,624

FAULKNER COUNTY, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (1,663,733)	\$ (497,110)	\$ 1,166,623	\$ (920,280)	\$ 429,008	\$ 1,349,288
OTHER FINANCING SOURCES (USES)						
Transfers in	335,520	188,670	(146,850)	8,098	8,098	
Transfers out		(37,252)	(37,252)			
Excess commission	72,000	137,855	65,855	41,000	72,416	31,416
TOTAL OTHER FINANCING SOURCES (USES)	407,520	289,273	(118,247)	49,098	80,514	31,416
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(1,256,213)	(207,837)	1,048,376	(871,182)	509,522	1,380,704
FUND BALANCES - JANUARY 1	2,448,517	2,643,614	195,097	2,319,006	2,866,212	547,206
FUND BALANCES - DECEMBER 31	<u>\$ 1,192,304</u>	<u>\$ 2,435,777</u>	<u>\$ 1,243,473</u>	<u>\$ 1,447,824</u>	<u>\$ 3,375,734</u>	<u>\$ 1,927,910</u>

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

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 as prescribed by Arkansas state law. The County maintains its records on a modified cash basis of accounting, as discussed in Note 1.C. This regulatory basis of presentation and modified basis of accounting differ 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. The following funds of the County are not presented in this report: Faulkner County Beautification Committee.

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 Annotated §10-4-202 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 receipts, disbursements, and changes in fund 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 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 bank accounts: General, Drug-Buy, Commissary, Tax Assessor's Late Assessment Fee, Beaver Fork Fire and Rural Fire Protection.

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: Jail Fines, Jail Fee, Public Defender, Emergency Squad, Breathalyzer, Child Support, Communications Facility and Equipment, 911, Victims of Crime, Juvenile Probation Fee, Public Defender Investigator, Soil Conservation, COPS Grant, Court Recorder's Cost, Act 1262 of 1995, Juvenile Jail Grant, Juvenile Court Representation, County Treasurer's Automation, Road Sales Tax, Criminal Justice Sales Tax, County Clerk's Cost, Homeland Haz-Mat, Law Enforcement Block Grant, Collector's Automation, Intensive Supervision Officer, Damascus/Martinville Water, Lake Conway Sewer Project, Public Safety Answering Point, Federal Homeland Bomb, Public Safety Act 749 of 1983, County Library Board, County Museum Commission and General Use.

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: Library Sales Tax and Criminal Justice Sales Tax Construction.

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Regulatory Fund Accounting (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's accounts (Treasurer's Commission, Collector's Unapportioned, Delinquent Real Estate, County Administration of Justice, Assessor's Salary, Collector's Commission, County General School, Law Library, Arkansas Forestry Commission, School Account, City, Improvement, Property Tax Relief, Act 1262 of 1995 and DNA Detection Act 737-9), Collector's accounts (Current Tax and Delinquent Tax), Sheriff's accounts (Fee, Bond and Fine, Circuit Bond and Inmate Trust), County Clerk Fee Account, Circuit Clerk Fee Account and Juvenile Court Account.

C. Basis of Accounting

The financial statements are presented using a modified cash 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. The modified cash basis differs from accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash 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 with an original maturity of three months or less.

Liabilities

For the purpose of financial reporting, liabilities include settlements pending. Settlements pending are considered fines, forfeitures, costs, trust funds, officer's fees, commissions 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.

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

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 modified cash basis for the General Fund, Road Fund and the other Special Revenue Funds except for the Communications Facility and Equipment and General Use Funds.

NOTE 2: Cash

Custodial credit risk information for deposits relating to whether deposits are insured or secured with collateral has not been provided.

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, 2004, the legal debt limit for the County was \$86,132,492. There were no property tax secured bond issues.

NOTE 5: Federal Funds Program Compliance

A separate report was issued for the Law Enforcement Block Grant - Equipment (LEBG - Equipment), Damascus/Martinville Water Project, Intensive Supervision Officer (ISO), School Lunch Reimbursement Program, Homeland Security and Lake Conway Sewer Project grants of the County. No material instances of noncompliance were reported in the aforementioned report.

NOTE 6: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2004
Road	\$ 3,375,734
Special Revenue Funds:	
Jail Fines	96,683
Jail Fees	23,673
Public Defender	54,076
Emergency Squad	40,530
Breathalyzer	7,577

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6: Reserved Fund Balance (Continued)

	<u>December 31, 2004</u>
Special Revenue Funds: (Continued)	
Child Support	\$ 52,324
Communications Facility and Equipment	36,930
911	637,500
Victims of Crime	8,458
Juvenile Probation Fee	38,430
Public Defender Investigator	61,704
Soil Conservation	190,281
Court Recorder's Cost	670,166
Act 1262 of 1995	6,621
Juvenile Jail Grant	32,891
Juvenile Court Representation	1,718
County Treasurer's Automation	64,562
Road Sales Tax	2,734,660
Criminal Justice Sales Tax	16,049
County Clerk's Cost	19,361
Homeland Haz-Mat	6
Collector's Automation	140,371
Intensive Supervision Officer	804
Public Safety Answering Point	62,251
Federal Homeland Bomb Team	332
Public Safety Act 749 of 1983	473
County Library Board	434,117
County Museum Commission	90,214
General Use	1,938
Capital Projects:	
Library Sales Tax	288,047
Criminal Justice Sales Tax Construction	<u>4,766,753</u>
Total	<u><u>\$ 13,955,234</u></u>

NOTE 7: Commitments

Total commitments consist of the following at December 31, 2004:

	<u>December 31, 2004</u>
Long-term debt	\$ 336,673
Construction contracts	<u>5,111,539</u>
Total	<u><u>\$ 5,448,212</u></u>

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 7: Commitments (Continued)

Long-Term Debt

Long-Term Debt at December 31, 2004 is comprised of the following:

	<u>December 31, 2004</u>
Promissory note with draw 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>\$ 336,673</u>

Due to the County's modified cash 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 was not determined.

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

Years Ending December 31,	Notes
2005	\$ 184,993
2006	176,632
Total Obligations	361,625
Less Interest	24,952
Total Principal	\$ 336,673

Construction Contracts

The County was contractually obligated for the following construction contracts at December 31, 2004:

Project Name	Estimated Completion Date	Contract Balance
Detention Center	October 31, 2005	\$ 5,111,539

NOTE 8: Joint Venture: 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 did not pay any funds to the Regional Library in 2004. Separate financial statements of the Faulkner-Van Buren Regional Library are not available.

NOTE 9: 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.

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9: Risk Management (Continued)

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 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 10: 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.

FAULKNER COUNTY, ARKANSAS
 OTHER SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2004
 (Unaudited)

Schedule 1

	December 31, 2004
A. GENERAL FIXED ASSETS	
Land and buildings	\$ 7,749,189
Equipment	6,727,724
Construction in progress	<u>1,684,348</u>
TOTAL	<u>16,161,261</u>
B. FIXED ASSETS - LIBRARY	
Land and buildings	4,033,744
Equipment	<u>345,949</u>
TOTAL	<u>4,379,693</u>
C. FIXED ASSETS-MUSEUM	
Land and buildings	105,000
Equipment	<u>4,615</u>
TOTAL	<u>109,615</u>
TOTAL	<u><u>\$ 20,650,569</u></u>