

Faulkner County, Arkansas
Regulatory Basis Financial Statements
and Other Reports

December 31, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



FAULKNER COUNTY, ARKANSAS
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Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, 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 regulatory basis 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, 2006, 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 practices 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, 2006, or the changes in its financial position or where applicable, its cash flows, 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 Homeland Security Radio, County Beautification, Law Enforcement Block Grant and Lake Conway Sewer Project Funds have not been included in the County's regulatory basis financial statements. The regulatory basis as prescribed or permitted by Arkansas Code requires the Homeland Security Radio, County Beautification, Law Enforcement Block Grant and Lake Conway Sewer Project Funds to be presented as part of the other funds in the aggregate, thus increasing the column's assets, liabilities, receipts, and disbursements. The amount by which this departure would affect the assets, liabilities, receipts, and disbursements of the other funds in the aggregate column is not reasonably determinable. The County's regulatory basis financial statements also 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, because of the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective regulatory basis financial position of the other funds in the aggregate of Faulkner County, Arkansas, as of December 31, 2006, and the respective changes in the regulatory basis financial position for the year then ended on the basis of accounting as described in Note 1(C).

In our opinion, except for the effects of not disclosing all required information concerning deposit risks, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund and road fund of Faulkner County, Arkansas, as of December 31, 2006, 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 on the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007 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 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, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script, appearing to read "Roger A. Norman".

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
December 19, 2007
LOCO02306

Sen. Randy Laverty
Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



Roger A. Norman, JD, 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 BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Faulkner 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 Faulkner County, Arkansas, as of and for the year ended December 31, 2006, and have issued our report thereon dated December 19, 2007. We issued an adverse opinion because the County prepared the financial statements using accounting principles 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. However, with respect to the basis of accounting described in Note 1(B and C), our opinion on the other funds in aggregate was adverse because of the effects on the financial statements of not including the Homeland Security Radio, County Beautification, Law Enforcement Block Grant and Lake Conway Sewer Project Funds in the other funds in the aggregate, and our opinions on the general fund and road fund 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 of the financial statements of Faulkner County, Arkansas, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting as prescribed or permitted by Arkansas Code such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the following deficiency to be a significant deficiency in internal control:

2006-1 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, item 2006-1, to be a material weakness.

The County's response to the finding identified in our audit is described above. We did not audit the County's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of the state constitution, laws, regulations, contracts and grant agreements, 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*.

Other Issues

The following issues are not significant deficiencies, material weaknesses 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 2006:

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

Our audit procedures indicated that the Offices of **Treasurer**, **Tax Collector**, **Circuit Clerk** and **Librarian** 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**, **County Sheriff** and **County Clerk** and are reported below:

County Clerk

Receipts were not issued and cash was not deposited for 48 marriage licenses valued at \$2,842 during the period January 1, 2006 through July 24, 2007. The custodian of these funds could not be determined. Lack of management oversight and inadequate internal controls over the receipting and depositing process contributed to misappropriation of funds, which was not timely detected. We recommend the County Clerk implement procedures to ensure adequate fiscal oversight and reconcile marriage licenses issued to receipts and deposits.

County Judge

1. The County paid \$18,123 to four employees for cleaning services in apparent conflict with Ark. Code Ann. 14-14-1202, which prohibits an employee from benefiting economically from a county transaction unless a quorum court adopts an ordinance authorizing purchase of services.
2. Capital assets purchased and construction completed in the amount of \$7,437,939 were not posted to the capital asset listing, primarily due to the failure to add a new jail facility and related equipment items to the listing.
3. As reported in prior years, the County computers operating on the PICK System did not have adequate access security controls.

County Sheriff

1. The Sheriff's office was unable to locate an AED Defibrillator purchased in 2002 and an IBM Think Pad Notebook purchased in 2005 totaling \$3,624, which were included on the capital asset listing.
2. The Sheriff's office did not prepare bank reconciliations from August to December for the Bond and Fine, Circuit Fines, Communications Facility and Equipment, and General Use Funds as required by Ark. Code Ann. 16-10-207 and 14-25-107. Cash receipt and disbursement journals were not maintained for August through December for the Bond and Fine Fund and for the month of December for the Circuit Fines Fund as required by Ark. Code Ann. 14-25-112. The Bond and Fine Fund ending balance was not identified with receipts issued but not yet submitted to the District Court Clerk as required by Ark. Code Ann 16-10-207.

County Sheriff (Continued)

3. As reported in prior years, the Sheriff's office did not have a disaster recovery or business continuity plan for computer processing.

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



June M. Barron, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
December 19, 2007

FAULKNER COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
DECEMBER 31, 2006

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 2,692,248	\$ 2,962,471	\$ 9,785,150
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending			\$ 3,278,907
Fund Balances:			
Reserved		\$ 2,962,471	6,506,243
Unreserved:			
Undesignated	\$ 2,692,248		
Total Fund Balances	2,692,248	2,962,471	6,506,243
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,692,248	\$ 2,962,471	\$ 9,785,150

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

FAULKNER COUNTY, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 1,253,667	\$ 2,128,067	\$ 161,396
Federal aid	56,233		
Property taxes	3,367,244	1,519,700	1,056,586
Sales taxes			6,316,835
Fines, forfeitures and costs	1,237,959		340,612
Interest	57,850	61,654	123,504
Officers' fees	197,371		721,118
Jail fees	579,216		
911 fees			508,690
Treasurer's commission	179,597		35,093
Collector's commission	359,463		60,000
Taxes apportioned - Assessor's salary and expense	912,116		
Other	591,082	80,418	387,288
 TOTAL RECEIPTS	 8,791,798	 3,789,839	 9,711,122
Less: Treasurer's commission	118,023	71,573	53,777
 NET RECEIPTS	 8,673,775	 3,718,266	 9,657,345
 DISBURSEMENTS			
Current:			
General government	3,087,062		725,108
Law enforcement	4,947,660		3,872,764
Highways and streets		3,705,198	3,616,379
Public safety	126,533		517,719
Health	47,100		
Recreation and culture	4,500		1,109,702

FAULKNER COUNTY, ARKANSAS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	General	Road	Other Funds In The Aggregate
DISBURSEMENTS (Continued)			
Current: (Continued)			
Social services	\$ 43,580		
Soil conservation			\$ 100,174
Total Current	8,256,435	\$ 3,705,198	9,941,846
Debt Service:			
Principal reduction on note payable	168,221		
Interest imputed on note payable	8,273		
TOTAL DISBURSEMENTS	8,432,929	3,705,198	9,941,846
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	240,846	13,068	(284,501)
OTHER FINANCING SOURCES (USES)			
Transfers in	181,433		120,939
Transfers out	(4,053)		(298,319)
TOTAL OTHER FINANCING SOURCES (USES)	177,380		(177,380)
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	418,226	13,068	(461,881)
FUND BALANCES - JANUARY 1	2,274,022	2,949,403	6,968,124
FUND BALANCES - DECEMBER 31	\$ 2,692,248	\$ 2,962,471	\$ 6,506,243

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 BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,147,624	\$ 1,253,667	\$ 106,043	\$ 1,961,000	\$ 2,128,067	\$ 167,067
Federal aid	36,000	56,233	20,233			
Property taxes	3,141,357	3,367,244	225,887	1,277,150	1,519,700	242,550
Fines, forfeitures and costs	1,066,678	1,237,959	171,281			
Interest	20,408	57,850	37,442	21,000	61,654	40,654
Officers' fees	146,800	197,371	50,571			
Jail fees	420,000	579,216	159,216			
Treasurer's commission	170,000	179,597	9,597			
Collector's commission	340,000	359,463	19,463			
Taxes apportioned - Assessor's salary and expense	720,000	912,116	192,116			
Other	552,631	591,082	38,451	35,500	80,418	44,918
TOTAL RECEIPTS	7,761,498	8,791,798	1,030,300	3,294,650	3,789,839	495,189
Less: Treasurer's commission		118,023	(118,023)		71,573	(71,573)
NET RECEIPTS	7,761,498	8,673,775	912,277	3,294,650	3,718,266	423,616
DISBURSEMENTS						
Current:						
General government	3,484,480	3,087,062	397,418			
Law enforcement	5,104,543	4,947,660	156,883			
Highways and streets				4,572,448	3,705,198	867,250
Public safety	135,293	126,533	8,760			
Health	47,100	47,100				
Recreation and culture	4,500	4,500				
Social services	43,588	43,580	8			
Total Current	8,819,504	8,256,435	563,069	4,572,448	3,705,198	867,250

FAULKNER 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, 2006

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (Continued)						
Debt Service:						
Principal reduction on note payable		\$ 168,221	\$ (168,221)			
Interest imputed on note payable		8,273	(8,273)			
TOTAL DISBURSEMENTS	<u>\$ 8,819,504</u>	<u>8,432,929</u>	<u>386,575</u>	<u>\$ 4,572,448</u>	<u>\$ 3,705,198</u>	<u>\$ 867,250</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(1,058,006)</u>	<u>240,846</u>	<u>1,298,852</u>	<u>(1,277,798)</u>	<u>13,068</u>	<u>1,290,866</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	191,900	181,433	(10,467)			
Transfers out		(4,053)	(4,053)			
TOTAL OTHER FINANCING SOURCES (USES)	<u>191,900</u>	<u>177,380</u>	<u>(14,520)</u>			
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	<u>(866,106)</u>	<u>418,226</u>	<u>1,284,332</u>	<u>(1,277,798)</u>	<u>13,068</u>	<u>1,290,866</u>
FUND BALANCES - JANUARY 1	<u>2,020,446</u>	<u>2,274,022</u>	<u>253,576</u>	<u>1,600,390</u>	<u>2,949,403</u>	<u>1,349,013</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,154,340</u>	<u>\$ 2,692,248</u>	<u>\$ 1,537,908</u>	<u>\$ 322,592</u>	<u>\$ 2,962,471</u>	<u>\$ 2,639,879</u>

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

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1: Summary of Significant Accounting Policies

As discussed further in Note 1(B and C), 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. The following funds of the County are not presented in this report: County Beautification, Law Enforcement Block Grant, Lake Conway Sewer Project and Homeland Security Radio.

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, Drug-Buy, Commissary, Tax Assessor's Late Assessment Fee 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 Fees, Public Defender, Emergency Squad, Breathalyzer, Child Support, Communications Facility and Equipment, 911, Victims of Crime, Juvenile Probation Fee, Public Defender Investigator, Soil Conservation, County 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, Collector's Automation, Public Safety Answering Point, Public Safety Act 749 of 1983, County Library Board, County Museum Commission, Animal Welfare and Control 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, 2006

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's accounts (Treasurer's Commission, Collector's Unapportioned, Delinquent Personal, Delinquent Real Estate, Assessor's Salary, Collector's Commission, County General School, Law Library, Arkansas Forestry Commission, School Accounts, City Accounts, Improvement District Accounts, Property Tax Relief, Act 1262 of 1995, State Land Sales, Sex and Child Offender, State Crime Lab and Law School), Collector's accounts (Current Tax and Delinquent Tax), Sheriff's accounts (Fee, Bond and Fine, Circuit Bond and Inmate Trust), County Clerk Fee and Trust Accounts, Circuit Clerk Accounts (Fee, Trust and Child Support) and Juvenile Court Account.

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, trust funds, officer's fees, commissions, and property taxes that have not been transferred to the appropriate entities.

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, 2006

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 Communications Facility and Equipment and General Use 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

A. Bonded Debt

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, 2006, the legal debt limit for bonded debt was \$99,442,001. There were no property tax secured bond issues.

B. Short-term Financing Obligations

The County is subject to a constitutional limitation for short-term financing obligations equal to two and one half percent (2.5%) of the assessed value of taxable property within the County as determined by the last tax assessment. At December 31, 2006, the legal debt limit for short-term financing obligations was \$25,636,421. There were no short-term financing obligations.

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 5: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2006
<u>Road</u>	<u>\$ 2,962,471</u>
<u>Other Funds in the Aggregate:</u>	
Special Revenue Funds:	
Jail Fines	\$ 182,666
Jail Fees	2,912
Public Defender	47,224
Emergency Squad	50,571
Breathalyzer	4,655
Child Support	46,296
Communications Facility and Equipment	46,008
911	595,299
Victims of Crime	7,671
Juvenile Probation Fee	61,657
Public Defender Investigator	77,777
County Recorder's Cost	753,634
Act 1262 of 1995	13,852
Juvenile Jail Grant	12,259
Juvenile Court Representation	1,752
County Treasurer's Automation	56,096
Road Sales Tax	1,752,384
Criminal Justice Sales Tax	1,534,631
County Clerk's Cost	11,035
Collector's Automation	99,849
Public Safety Answering Point	201,317
Public Safety Act 749 of 1983	3,178
County Library Board	523,860
County Museum Commission	38,959
General Use	5,137
Animal Welfare and Control	101,216
Capital Projects Fund:	
Library Sales Tax	<u>274,348</u>
Total Other Funds in the Aggregate	<u>\$ 6,506,243</u>

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6: Commitments

Total commitments consist of the following at December 31, 2006:

	December 31, 2006
Noncancellable lease	\$ 10,214

Compensated Absences

Compensated absences do vest or accumulate. The amount of compensated absences was not determined.

Noncancellable Lease

The County entered into a noncancellable lease agreement for a Xerox Copier on April 29, 2005. Terms of the lease are monthly rental payments of \$233 for 60 months. At the end of the lease term, the County will return the copier to the lessor. The County is obligated for the following amounts for the next four years:

Year	Amount
2007	\$ 3,055
2008	3,068
2009	3,068
2010	1,023
Total	\$ 10,214

Rental expense for 2006 was \$3,036.

NOTE 7: 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 2006. Separate financial statements of the Faulkner-Van Buren 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.

FAULKNER COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8: 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 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 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.

FAULKNER COUNTY, ARKANSAS
 OTHER SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2006
 (Unaudited)

Schedule 1

		December 31, 2006
A.	GENERAL FIXED ASSETS	
	Land and buildings	\$ 7,749,189
	Equipment	<u>7,207,474</u>
	Total	<u>14,956,663</u>
B.	FIXED ASSETS - LIBRARY	
	Land and buildings	4,033,744
	Equipment	<u>276,741</u>
	Total	<u>4,310,485</u>
C.	FIXED ASSETS - MUSEUM	
	Land and buildings	105,000
	Equipment	<u>9,636</u>
	Total	<u>114,636</u>
	TOTAL	<u>\$ 19,381,784</u>