

**Faulkner County, Arkansas**  
**Financial Statements (Modified Cash Basis)**  
**and Other Reports**  
**December 31, 2003**

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 Laverty  
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, 2003, 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 Committee, a component unit, 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 omitting the required 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 assets and liabilities arising from modified cash transactions of Faulkner County, Arkansas, as of December 31, 2003, and the receipts and disbursements 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 September 16, 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.

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 Fixed Assets listed in the table of contents as Schedule 1 is presented for the purpose of additional analysis, but it is neither a required part of the financial statements nor supplementary information required by the Governmental Accounting Standards Board. We have not applied auditing procedures to this information and, accordingly, express no opinion on the Schedule of Fixed Assets.

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  
September 16, 2004  
LOCO02303

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
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, 2003 and have issued our report thereon dated September 16, 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 in the financial statements. Also, the required disclosures were not made concerning deposits. 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 2003:

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

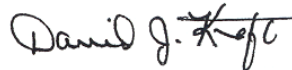
Our audit procedures indicated that the Offices of **County Judge, Treasurer, Tax Collector** and **Circuit Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the Offices of **Sheriff**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

As reported in prior audits, the **Sheriff's** Office did not maintain accountability over the Inmate Trust Fund. Cash receipts were not deposited in a timely manner. Cash receipt and disbursement journals could not be reconciled to deposits and withdrawals on bank statements. This resulted in inadequate safeguarding of assets.

Accounting records were not maintained for trust funds in custody of the **County Clerk**. Prenumbered receipts were not written for trust funds received. Cash receipt and disbursement journals were not maintained for January through November 2003, but were maintained in December 2003. 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  
September 16, 2004

FAULKNER COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS -  
 MODIFIED CASH BASIS  
 DECEMBER 31, 2003

Exhibit A

	Governmental Fund Types			Fiduciary Fund Type Agency	Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects		Primary	County Library Board	County Museum Commission	Reporting Entity
					Government December 31, 2003			
ASSETS AND OTHER DEBITS								
Cash and cash equivalents	\$ 2,643,613	\$ 11,860,954	\$ 284,024	\$ 3,876,639	\$ 18,665,230	\$ 501,670	\$ 69,796	\$ 19,236,696
LIABILITIES AND FUND EQUITY								
Liabilities:								
Settlements pending				\$ 3,876,639	\$ 3,876,639			\$ 3,876,639
Fund Equity:								
Fund balances:								
Unreserved:								
Undesignated	\$ 2,643,613	\$ 11,860,954	\$ 284,024		14,788,591	\$ 501,670	\$ 69,796	15,360,057
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,643,613	\$ 11,860,954	\$ 284,024	\$ 3,876,639	\$ 18,665,230	\$ 501,670	\$ 69,796	\$ 19,236,696

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

FAULKNER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit B

	Governmental Fund Types			Totals	Component Units		Totals
				(Memorandum Only)	County	County Museum	(Memorandum Only)
	General	Special Revenue	Capital Projects	Primary Government Year Ended December 31, 2003	Library Board	Commission	Reporting Entity Year Ended December 31, 2003
RECEIPTS							
State aid	\$ 1,081,406	\$ 2,041,922		\$ 3,123,328	\$ 180,819		\$ 3,304,147
Federal aid	6,752	488,812		495,564			495,564
Property taxes	2,235,405	1,255,220		3,490,625	645,576	\$ 69,398	4,205,599
Sales taxes		4,702,280		4,702,280			4,702,280
Fines, forfeitures and costs	974,812	274,302		1,249,114			1,249,114
Interest	13,804	89,096	\$ 3,985	106,885	5,334	267	112,486
Officers' fees	121,816	715,116		836,932			836,932
Jail fees	588,070			588,070			588,070
911 fees		490,164		490,164			490,164
Treasurer's commission	155,985	27,877		183,862			183,862
Collector's commission	345,791	119,350		465,141			465,141
Taxes apportioned - Assessor's salary and expense	734,822			734,822			734,822
Other	502,123	112,866		614,989	58,793	10,716	684,498
<b>TOTAL RECEIPTS</b>	<b>6,760,786</b>	<b>10,317,005</b>	<b>3,985</b>	<b>17,081,776</b>	<b>890,522</b>	<b>80,381</b>	<b>18,052,679</b>
Less: Treasurer's commission	96,039	91,924		187,963	16,216	1,392	205,571
<b>NET RECEIPTS</b>	<b>6,664,747</b>	<b>10,225,081</b>	<b>3,985</b>	<b>16,893,813</b>	<b>874,306</b>	<b>78,989</b>	<b>17,847,108</b>
DISBURSEMENTS							
Current:							
General government	2,599,550	537,118		3,136,668			3,136,668
Law enforcement	4,244,210	1,719,507		5,963,717			5,963,717
Highways and streets		4,729,815		4,729,815			4,729,815
Public safety	63,915	999,762		1,063,677			1,063,677
Health	43,500			43,500			43,500
Recreation and culture	5,500			5,500	961,783	68,543	1,035,826
Social services	30,348			30,348			30,348
Soil conservation		158,998		158,998			158,998
<b>Total Current</b>	<b>6,987,023</b>	<b>8,145,200</b>		<b>15,132,223</b>	<b>961,783</b>	<b>68,543</b>	<b>16,162,549</b>
Debt service:							
Principal reduction on note payable	168,268			168,268			168,268
Interest imputed on note payable	33,654			33,654			33,654
<b>TOTAL DISBURSEMENTS</b>	<b>7,188,945</b>	<b>8,145,200</b>		<b>15,334,145</b>	<b>961,783</b>	<b>68,543</b>	<b>16,364,471</b>

FAULKNER COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003			Year Ended December 31, 2003
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (524,198)	\$ 2,079,881	\$ 3,985	\$ 1,559,668	\$ (87,477)	\$ 10,446	\$ 1,482,637
OTHER FINANCING SOURCES (USES)							
Transfers in	180,257	33,796		214,053			214,053
Transfers out	(32,360)	(181,693)		(214,053)			(214,053)
Transfers from/to component units	(4,362)			(4,362)			(4,362)
Transfers from/to primary government					4,471	(109)	4,362
Prior year excess commissions returned	123,333	91,886		215,219	38,695	3,502	257,416
TOTAL OTHER FINANCING SOURCES (USES)	266,868	(56,011)		210,857	43,166	3,393	257,416
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(257,330)	2,023,870	3,985	1,770,525	(44,311)	13,839	1,740,053
FUND BALANCES - JANUARY 1	2,900,923	9,837,104	280,039	13,018,066	545,981	55,957	13,620,004
Residual equity transfer in	20			20			20
Residual equity transfer out		(20)		(20)			(20)
FUND BALANCES - DECEMBER 31	<u>\$ 2,643,613</u>	<u>\$ 11,860,954</u>	<u>\$ 284,024</u>	<u>\$ 14,788,591</u>	<u>\$ 501,670</u>	<u>\$ 69,796</u>	<u>\$ 15,360,057</u>

The accompanying notes are an integral part of these financial statements



FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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. The following types of funds 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 receipt sources (other than major capital projects) that are legally restricted to disbursements 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.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when receipts and disbursements 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. Receipts are recognized when collected rather than when earned. Disbursements are recognized when disbursed, except for settlements pending.

D. 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.

E. Fund Equity

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

F. 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 disbursements 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, Damascus Martinville Water and Faulkner County - Lake Conway Sewer Funds. Formal budgetary policies are not employed for the Fiduciary Fund Types and the Capital Projects Fund.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Budgetary Controls (Continued)

2. Accounting (Continued)

The following table reflects budget versus actual comparisons by fund for the year ended December 31, 2003:

Fund	Budgeted Receipts and Other Sources	Actual Receipts and Other Sources	Excess	Appropriations	Actual Disbursements and Other Uses	Excess
General	\$ 6,245,063	\$ 7,064,485	\$ 819,422	\$ 7,758,209	\$ 7,225,776	\$ 532,433
Special Revenue:						
Road	2,873,081	3,284,332	411,251	3,833,851	3,204,014	629,837
Jail Fines	12,000	17,009	5,009			
Jail Fees	143,971	138,802	(5,169)	140,000	140,000	
Public Defender	23,065	22,425	(640)	36,180	30,773	5,407
Emergency Squad	49,586	61,530	11,944	90,145	47,837	42,308
Breathalyzer	1,115	1,040	(75)			
Child Support	15,300	27,066	11,766	67,465	30,461	37,004
911	451,450	495,130	43,680	638,532	485,967	152,565
Victims of Crime	24,858	23,465	(1,393)	27,134	26,993	141
Juvenile Probation Fees	86,746	78,093	(8,653)	88,651	75,324	13,327
Public Defender Investigator	8,224	8,593	369			
Soil Conservation	55,830	77,986	22,156	173,400	158,998	14,402
COPS Grant	18,304	427	(17,877)	26,304	25,121	1,183
County Recorder's Cost	457,422	634,718	177,296	510,914	434,133	76,781
Act 1262 of 1995	5,312	7,755	2,443	8,000	8,000	
Juvenile Court Representation	3	575	572			
County Treasurer's Automation	21,660	28,025	6,365	38,930	24,848	14,082
Community Policing Grant						
Road Sales Tax	1,935,500	2,354,372	418,872	2,460,000	1,525,801	934,199
Criminal Justice Sales Tax	1,954,600	2,422,486	467,886	1,729,063	1,479,465	249,598
County Clerk's Cost Fund	36,888	39,235	2,347	33,899	33,019	880
Homeland HAZ-MAT	19,325	15,604	(3,721)	15,600	15,600	
Law Enforcement Block Grant	22,000	37,298	15,298	23,437	14,109	9,328
County Collector's Automation	50,360	119,747	69,387	24,000	23,641	359
Mosquito Abatement	10,669	15	(10,654)	10,669	10,669	
Intensive Supervision Officer	29,402	29,595	193	29,401	25,933	3,468
Communications Facility and Equipment		58,681	58,681		45,980	(45,980)
Damascus/Martinville Water Faulkner County -		403,413	403,413		403,413	(403,413)
Lake Conway Sewer		36,277	36,277		36,276	(36,276)
Juvenile Grant	18,965	18,993	28	21,000	20,518	482

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. 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. Certificates of deposit and treasury bills are also classified as cash equivalents because of their highly liquid nature.

NOTE 2: Memorandum Totals

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

NOTE 3: Public Fund Deposits

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:

Information disclosing whether deposits are:

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

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, Jail Fines, Jail Fee, Public Defender, Emergency Squad, Breathalyzer, Child Support, Communications Facility and Equipment, 911, Victims of Crime, Juvenile Probation Fees, Public Defender Investigator, 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, Homeland Haz-Mat, Law Enforcement Block Grant, County Collector's Automation, Mosquito Abatement, Intensive Supervision Officer, Damascus/Martinville Water and Faulkner County - Lake Conway Sewer.

NOTE 6: 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, 2003, the legal debt limit for the County was \$80,601,504. There were no property tax secured bond issues.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 7: Federal Funds Program Compliance

The grants of the Damascus/Martinville Water and Faulkner County - Lake Conway Sewer were not audited in accordance with Federal Program requirements and therefore, any instances of noncompliance with Federal Grant requirements have not been determined.

NOTE 8: Commitments

Total commitments consist of the following at December 31, 2003:

	December 31, 2003
Long-Term Debt	\$ 504,803

Long-Term Debt

Long-Term Debt at December 31, 2003 is comprised of the following:

	December 31, 2003
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.	\$ 504,803

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 amount:

Years Ending December 31,	Notes
2004	\$ 201,707
2005	201,707
2006	150,438
Total Obligations	553,852
Less Interest	49,049
Total Principal	\$ 504,803

NOTE 9: 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. Separate financial statements of the Faulkner/Van Buren Regional Library are not available.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 10: Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

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

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

Vehicle Program

- A. Liability - This program may pay all sums the County legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered county vehicle and for which the County is liable. The limit of payment by the program is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident and \$25,000 for property damage per accident. The County shall pay into the program each year a charge established annually by the Risk Management Fund Board for covered county vehicles owned or leased by the County.
- B. Physical Damage - This program covers vehicles (excluding mobile equipment) which are the property of the participating county. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$500 per occurrence. The County agrees to pay into the program each year a service charge established annually by the Risk Management Fund Board for covered property.

General Liability Program – The program shall provide legal defense in civil rights suits against the county government of a participating county and pay judgments imposed on county officials and employees and the county government and county-formed boards and commissions. Coverage is limited to \$350,000 per case with an annual aggregate of \$350,000. The County agrees to pay into the program each year a charge of 60 cents per capita. Each county also agrees to pay the first \$2,000 of the aggregate cost for all expenses on each lawsuit. The County 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 11: 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.

FAULKNER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

NOTE 11: Arkansas Public Employees Retirement System (Continued)

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, 2003, 2002 and 2001 were \$546,534, \$501,581 and \$376,471, respectively, equal to the required contributions for each year.

FAULKNER COUNTY, ARKANSAS  
 OTHER SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FIXED ASSETS  
 FOR THE YEAR ENDED DECEMBER 31, 2003  
 (Unaudited)

Schedule 1

	December 31, 2003
A. <u>General Fixed Assets</u>	
Land and buildings	\$ 7,749,189
Equipment	6,578,235
Construction in progress	56,991
Total	\$ 14,384,415
B. <u>Component Unit Fixed Assets - Library</u>	
Land and buildings	\$ 4,033,744
Equipment	405,607
Total	\$ 4,439,351
C. <u>Component Unit Fixed Assets - Museum</u>	
Land and buildings	\$ 105,000
Equipment	4,615
Total	\$ 109,615