

Faulkner County, Arkansas

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

December 31, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



FAULKNER COUNTY, ARKANSAS
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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. 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 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, 2005, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

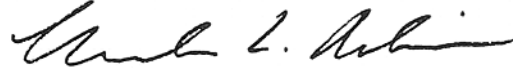
The financial statements referred to above do not include the financial information for the County Beautification Committee, Law Enforcement Block Grant, Damascus-Martinville Water Project, Intensive Supervisor Officer, Homeland Security Grants and Lake Conway Sewer Project, which should be included in other funds in the aggregate, and do not disclose certain required information concerning deposit risks, which should be included in order to conform with the regulatory 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 regulatory basis financial position of the general fund, road fund, and other funds in the aggregate of Faulkner County, Arkansas, as of December 31, 2005, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and road fund for the year then ended for the regulatory basis of accounting as described in Note 1 (C).

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements of 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



Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
August 31, 2006
LOCO02305

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



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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, 2005 and have issued our report thereon dated August 31, 2006. In our report, our opinions on the general fund, road fund, and other funds in the aggregate were qualified because required disclosures were not made concerning deposit risks. 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, Law Enforcement Block Grant, Damascus-Martinville Water Project, Intensive Supervisor Officer, Homeland Security Grants and Lake Conway Sewer Project. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described below relating to inadequate segregation of duties to be a material weakness.

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

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

2. The County paid Mr. Jake Pike, Deputy Sheriff, \$6,200 for a vehicle in apparent conflict with Ark. Code Ann. § 14-14-1202, which prohibits an employee from benefiting economically from a county transaction. We recommend the Twentieth Judicial District Prosecuting Attorney review the ethical ramifications of this matter. The Sheriff indicated his staff has been informed of this matter in an effort to prevent future ethics violations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of the state constitution, laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Internal Control over Financial Reporting section as finding number 2.

Other Issues

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

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

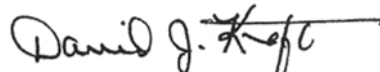
County Judge: John Wayne Carter
Treasurer: Regina Oakley
Sheriff: Marty Montgomery
Tax Collector: Steve Simon
County Clerk: Melinda Reynolds
Circuit Clerk: Sharon Rimmer
County Librarian: Ruth Voss

Our audit procedures indicated that the offices of **Treasurer, Tax Collector, County Clerk, Circuit Clerk** and **County Librarian** 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:

As reported in the prior year, 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. The Sheriff's office does not have a disaster recovery or business continuity plan for computer processing. This situation could cause the office 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 is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
August 31, 2006

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

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 2,274,022	\$ 2,949,403	\$ 10,742,279
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending			\$ 3,774,154
Fund Balances:			
Reserved		\$ 2,949,403	6,968,125
Unreserved:			
Undesignated	\$ 2,274,022		
Total Fund Balances	2,274,022	2,949,403	6,968,125
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,274,022	\$ 2,949,403	\$ 10,742,279

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 BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 1,172,205	\$ 2,175,769	\$ 182,546
Federal aid	48,871		
Property taxes	3,031,223	1,372,086	985,082
Sales taxes			5,728,658
Fines, forfeitures and costs	1,164,457		355,703
Interest	25,764	21,918	91,163
Officers' fees	165,275		699,035
Jail fees	547,696		
911 fees			470,950
Refund			21,535
Treasurer's commission	171,430		31,886
Collector's commission	351,948		
Taxes apportioned - Assessor's salary and expense	707,342		
Other	499,068	93,647	213,395
TOTAL RECEIPTS	7,885,279	3,663,420	8,779,953
Less: Treasurer's commission	108,366	70,169	51,646
NET RECEIPTS	7,776,913	3,593,251	8,728,307
DISBURSEMENTS			
Current:			
General government	2,936,599		725,724
Law enforcement	4,812,301		6,068,953
Highways and streets		4,019,582	3,624,972
Public safety	51,403		519,675
Health	51,000		
Recreation and culture	5,500		1,032,267
Social services	46,170		
Soil conservation			186,875
Total Current	7,902,973	4,019,582	12,158,466
Debt service:			
Principal reduction on note payable	168,452		
Interest imputed on note payable	16,540		
TOTAL DISBURSEMENTS	8,087,965	4,019,582	12,158,466
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(311,052)	(426,331)	(3,430,159)

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

Exhibit B

	General	Road	Other Funds In The Aggregate
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 178,670		\$ 1,380,377
Transfers out	<u>(29,373)</u>		<u>(1,529,674)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>149,297</u>		<u>(149,297)</u>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(161,755)	\$ (426,331)	(3,579,456)
FUND BALANCES - JANUARY 1	<u>2,435,777</u>	<u>3,375,734</u>	<u>10,547,581</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 2,274,022</u></u>	<u><u>\$ 2,949,403</u></u>	<u><u>\$ 6,968,125</u></u>

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, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,063,812	\$ 1,172,205	\$ 108,393	\$ 1,930,500	\$ 2,175,769	\$ 245,269
Federal aid	36,000	48,871	12,871			
Property taxes	2,581,330	3,031,223	449,893	1,044,440	1,372,086	327,646
Fines, forfeitures and costs	1,021,290	1,164,457	143,167			
Interest	10,686	25,764	15,078	4,750	21,918	17,168
Officers' fees	120,626	165,275	44,649			
Jail fees	247,500	547,696	300,196			
Treasurer's commission	170,000	171,430	1,430			
Collector's commission	355,000	351,948	(3,052)			
Taxes apportioned - Assessor's salary and expense	930,000	707,342	(222,658)			
Other	472,944	499,068	26,124	60,000	93,647	33,647
TOTAL RECEIPTS	7,009,188	7,885,279	876,091	3,039,690	3,663,420	623,730
Less: Treasurer's commission		108,366	(108,366)		70,169	(70,169)
NET RECEIPTS	7,009,188	7,776,913	767,725	3,039,690	3,593,251	553,561
DISBURSEMENTS						
Current:						
General government	3,420,285	2,936,599	483,686			
Law enforcement	4,896,146	4,812,301	83,845			
Highways and streets				4,789,860	4,019,582	770,278
Public safety	64,327	51,403	12,924			
Health	51,000	51,000				
Recreation and culture	5,500	5,500				
Social services	46,170	46,170				
Total Current	8,483,428	7,902,973	580,455	4,789,860	4,019,582	770,278

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, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (Continued)						
Debt service:						
Principal reduction on note payable		\$ 168,452	\$ (168,452)			
Interest imputed on note payable		16,540	(16,540)			
TOTAL DISBURSEMENTS	<u>\$ 8,483,428</u>	<u>8,087,965</u>	<u>395,463</u>	<u>\$ 4,789,860</u>	<u>\$ 4,019,582</u>	<u>\$ 770,278</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(1,474,240)</u>	<u>(311,052)</u>	<u>1,163,188</u>	<u>(1,750,170)</u>	<u>(426,331)</u>	<u>1,323,839</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	175,689	178,670	2,981			
Transfers out		<u>(29,373)</u>	<u>(29,373)</u>			
TOTAL OTHER FINANCING SOURCES (USES)	<u>175,689</u>	<u>149,297</u>	<u>(26,392)</u>			
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(1,298,551)	(161,755)	1,136,796	(1,750,170)	(426,331)	1,323,839
FUND BALANCES - JANUARY 1	<u>2,533,577</u>	<u>2,435,777</u>	<u>(97,800)</u>	<u>2,404,977</u>	<u>3,375,734</u>	<u>970,757</u>
FUND BALANCES - DECEMBER 31	<u>\$ 1,235,026</u>	<u>\$ 2,274,022</u>	<u>\$ 1,038,996</u>	<u>\$ 654,807</u>	<u>\$ 2,949,403</u>	<u>\$ 2,294,596</u>

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

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

NOTE 1: Summary of Significant Accounting Policies

As discussed further in Note 1(B), these financial statements are presented in accordance with the regulatory basis of presentation as prescribed by Arkansas state law. 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 Committee, Law Enforcement Block Grant, Intensive Supervisor Officer, Damascus-Martinville Water Project, Lake Conway Sewer Project, and Homeland Security Grants.

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 Fee, 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, 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, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Regulatory Fund Accounting (Account)

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, 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, Law School 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 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.

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, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Budget Law

1. Legal Requirements

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

2. Accounting

The County prepared an annual budget on the regulatory basis for the General Fund, Road Fund and the other Special Revenue Funds except for the 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 has not been provided as required by Governmental Accounting Standards Board Statement No. 40.

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

State law generally requires that County funds be deposited in federally insured banks located in the State of Arkansas. The County deposits may be in the form of checking accounts, savings accounts, and/or time deposits. Public funds may also be invested in direct obligations of the United States of America and obligations the principal and interest on which are fully guaranteed by the United States of America.

NOTE 4: Legal Debt Limit - Tax Secured Bond Issues

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2005, the legal debt limit for the County was \$93,766,612. There were no property tax secured bond issues.

NOTE 5: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2005
<u>Road</u>	\$ 2,949,403
<u>Other Funds in the Aggregate:</u>	
<u>Special Revenue Funds:</u>	
Jail Fines	\$ 90,255
Jail Fee	28,075
Public Defender	47,871
Emergency Squad	61,951
Breathalyzer	8,713
Child Support	43,398
Communications Facility and Equipment	89,440
911	13,178

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

NOTE 5: Reserved Fund Balance (Continued)

	December 31, 2005
<u>Other Funds in the Aggregate:</u> (Continued)	
Special Revenue Funds: (Continued)	
Victims of Crime	\$ 13,178
Juvenile Probation Fee	51,742
Public Defender Investigator	67,232
Soil Conservation	95,391
County Recorder's Cost	694,916
Act 1262 of 1995	9,209
Juvenile Jail Grant	30,028
Juvenile Court Representation	1,728
County Treasurer's Automation	61,641
Road Sales Tax	1,984,398
Criminal Justice Sales Tax	1,424,102
County Clerk's Cost	17,236
Collector's Automation	90,253
Public Safety Answering Point	103,881
Public Safety Act 749 of 1983	1,202
County Library Board	486,344
County Museum Commission	69,899
General Use	9,700
Capital Projects:	
Library Sales Tax	269,744
Criminal Justice Sales Tax Construction	485,344
	\$ 5,967,168
Total Other Funds in the Aggregate	

NOTE 6: Commitments

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

	December 31, 2005
Long-term debt	\$ 168,221
Construction contracts	507,961
	\$ 676,182
TOTAL COMMITMENTS	

Long-Term Debt

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

	December 31, 2005
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 installment of principal plus accrued interest, first payment due August 21, 2002.	\$ 168,221

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

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

NOTE 6: Commitments (Continued)

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
2006	\$ 176,632
Less Interest	8,411
Total Principal	\$ 168,221

Construction Contracts

The County was contractually obligated for the following construction contracts at December 31, 2005.

Project Name	Estimated Completion Date	Contract Balance
Detention Center	August 15, 2006	\$ 507,961

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 2005. 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, 2005

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, 2005
 (Unaudited)

Schedule 1

	<u>December 31,</u> <u>2005</u>
A. GENERAL FIXED ASSETS	
Land and buildings	7,749,189
Equipment	7,371,375
Construction in progress	<u>6,323,124</u>
Total	<u>21,443,688</u>
B. FIXED ASSETS - LIBRARY	
Land and buildings	4,033,744
Equipment	<u>343,057</u>
Total	<u>4,376,801</u>
C. FIXED ASSETS - MUSEUM	
Land and buildings	105,000
Equipment	<u>4,615</u>
Total	<u>109,615</u>
TOTAL	<u><u>\$25,930,104</u></u>