

**Baxter County, Arkansas**  
**Financial Statements (Modified Cash Basis)**  
**and Other Reports**  
**December 31, 2002**

LEGISLATIVE JOINT AUDITING COMMITTEE

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

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

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

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

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

The financial statements referred to above do not include the financial information for the Component Unit – Baxter Manor Nursing Home, compensated absences and do not disclose certain required information concerning deposits and investments which should be included in order to conform with the basis of accounting described in Note 1(C). The effects of the omitted financial information for the Component Unit – Baxter Manor Nursing Home and compensated absences were not determined.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1(C), the assets and liabilities arising from modified cash transactions of Baxter County, Arkansas, as of December 31, 2002, or the revenues and expenditures for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2003 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
December 1, 2003  
LOCO00302

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

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of Baxter County, Arkansas, as of and for the year ended December 31, 2002 and have issued our report thereon dated December 1, 2003. In our report, our opinion was adverse because of the effects on the financial statements of not including all financial information of the reporting entity and the required information concerning compensated absences in the financial statements. Also, the required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of the state constitution, laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

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

The County had inadequate control over cash transactions because of insufficient segregation of duties.

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

Other Management Issues

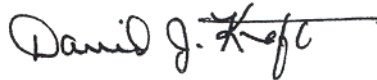
The commentary contained in this section relates to the following officials that held office during 2002:

County Judge: Joe Bodenhamer  
Treasurer: Nelda Speaks  
Sheriff: Joe Edmonds  
Tax Collector: Willa Mae Tilley  
County and Circuit Clerk: Rhonda Porter  
District Court Clerk: Linda Shaffer  
Juvenile Services: Cheryl Green

Our audit procedures indicated that all of the above offices were in substantial compliance with Arkansas fiscal and financial laws.

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  
December 1, 2003

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

Exhibit A

	Governmental Fund Types				Fiduciary Fund Type Agency	Account Groups		Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long- Term Debt	Primary	County Airport Commission	County Library Board	Reporting
								Government December 31, 2002			Entity December 31, 2002
<b>ASSETS AND OTHER DEBITS</b>											
Cash and cash equivalents	\$ 1,189,285	\$ 919,925		\$ 3,180,733	\$ 716,434		\$ 6,006,377	\$ 104,235	\$ 157,606	\$ 6,268,218	
Investments (Certificates of deposit)	660,372	313,795	\$ 581,367				1,555,534		259,773	1,815,307	
Restricted assets:											
Cash and cash equivalents								56,763		56,763	
Land and buildings						\$ 4,581,783	4,581,783	552,185		5,133,968	
Improvements						246,375	246,375	1,809,529		2,055,904	
Equipment						8,231,599	8,231,599	50,199	30,192	8,311,990	
Construction in progress						119,082	119,082	608,012		727,094	
Amount available in debt service fund							\$ 581,367	581,367	56,763	638,130	
Amount to be provided for retirement of general long-term debt								3,811,876		4,441,773	
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 1,849,657</b>	<b>\$ 1,233,720</b>	<b>\$ 581,367</b>	<b>\$ 3,180,733</b>	<b>\$ 716,434</b>	<b>\$ 13,178,839</b>	<b>\$ 4,393,243</b>	<b>\$ 25,133,993</b>	<b>\$ 3,867,583</b>	<b>\$ 447,571</b>	<b>\$ 29,449,147</b>
<b>LIABILITIES AND FUND EQUITY</b>											
<b>Liabilities:</b>											
Accounts payable	\$ 118,172	\$ 54,685					\$ 172,857	\$ 65,973	\$ 9,195	\$ 248,025	
Payroll taxes payable		657					657			657	
Settlements pending	384,623				\$ 110,379		495,002			495,002	
Due to other agencies					606,055		606,055			606,055	
Lease-purchase agreements payable						\$ 390,595	390,595			390,595	
Notes payable						762,648	762,648			762,648	
Revenue bonds payable						3,240,000	3,240,000	686,660		3,926,660	
<b>Total Liabilities</b>	<b>502,795</b>	<b>55,342</b>			<b>716,434</b>	<b>4,393,243</b>	<b>5,667,814</b>	<b>752,633</b>	<b>9,195</b>	<b>6,429,642</b>	
<b>Fund Equity:</b>											
Investment in general fixed assets						\$ 13,178,839	13,178,839	3,019,925	30,192	16,228,956	
<b>Fund balances:</b>											
<b>Reserved:</b>											
Debt service			\$ 581,367				581,367	56,763		638,130	
<b>Unreserved:</b>											
Designated	534,076						534,076		300	534,376	
Undesignated	812,786	1,178,378		\$ 3,180,733			5,171,897	38,262	407,884	5,618,043	
<b>Total Fund Equity</b>	<b>1,346,862</b>	<b>1,178,378</b>	<b>581,367</b>	<b>3,180,733</b>		<b>13,178,839</b>	<b>19,466,179</b>	<b>3,114,950</b>	<b>438,376</b>	<b>23,019,505</b>	
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,849,657</b>	<b>\$ 1,233,720</b>	<b>\$ 581,367</b>	<b>\$ 3,180,733</b>	<b>\$ 716,434</b>	<b>\$ 13,178,839</b>	<b>\$ 4,393,243</b>	<b>\$ 25,133,993</b>	<b>\$ 3,867,583</b>	<b>\$ 447,571</b>	<b>\$ 29,449,147</b>

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

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

Exhibit B

	Governmental Fund Types				Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government	County Airport Commission	County Library Board	Reporting Entity
					Year Ended December 31, 2002			Year Ended December 31, 2002
<b>REVENUES</b>								
Intergovernmental revenues - state	\$ 752,518	\$ 1,442,977			\$ 2,195,495	\$ 344,771	\$ 97,701	\$ 2,637,967
Intergovernmental revenues - federal	39,812	166,936			206,748			206,748
Property taxes	306,856	667,439			974,295		288,846	1,263,141
Sales taxes	2,567,304				2,567,304			2,567,304
Fines, forfeitures and costs	452,686	29,634			482,320			482,320
Investment income	64,266	41,930	\$ 8,351	\$ 60,519	175,066	6,989	10,481	192,536
Officers' fees	197,704	263,576			461,280			461,280
911 fees		262,338			262,338			262,338
Hospital lease	405,266		194,734		600,000			600,000
Jail fees	63,568				63,568			63,568
Airport fees						62,750		62,750
Treasurer's commission	60,320	21,163			81,483			81,483
Collector's commission	233,561	61,631			295,192			295,192
Taxes apportioned - Assessor's salary and expense	299,656				299,656			299,656
Other	286,426	370,577			657,003		33,959	690,962
<b>TOTAL REVENUES</b>	<b>5,729,943</b>	<b>3,328,201</b>	<b>203,085</b>	<b>60,519</b>	<b>9,321,748</b>	<b>414,510</b>	<b>430,987</b>	<b>10,167,245</b>
Less: Treasurer's commission	37,260	59,758			97,018		8,150	105,168
<b>NET REVENUES</b>	<b>5,692,683</b>	<b>3,268,443</b>	<b>203,085</b>	<b>60,519</b>	<b>9,224,730</b>	<b>414,510</b>	<b>422,837</b>	<b>10,062,077</b>
<b>EXPENDITURES</b>								
Current:								
General government	1,918,451	219,322			2,137,773	859,714		2,997,487
Law enforcement	2,686,620	372,251			3,058,871			3,058,871
Highways and streets	29,697	2,601,631			2,631,328			2,631,328
Public safety	424,568	295,159			719,727			719,727
Health	77,976				77,976			77,976
Recreation and culture	14,500	62,242			76,742		429,935	506,677
Social services	43,504				43,504			43,504
<b>Total Current</b>	<b>5,195,316</b>	<b>3,550,605</b>			<b>8,745,921</b>	<b>859,714</b>	<b>429,935</b>	<b>10,035,570</b>

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

Exhibit B

	Governmental Fund Types				Totals (Memorandum Only)	Component Units		Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government	County Airport Commission	County Library Board	Reporting Entity
					Year Ended December 31, 2002			Year Ended December 31, 2002
EXPENDITURES (CONTINUED)								
Capital outlay				\$ 184,206	\$ 184,206			\$ 184,206
Debt service:								
Bond interest and fiscal charges			\$ 50,555		50,555			50,555
Principal reduction on capital lease		\$ 140,136			140,136	\$ 14,340		154,476
Interest imputed on capital lease		30,055			30,055	27,397		57,452
Promissory note principal		218,245			218,245			218,245
Promissory note interest		8,870			8,870			8,870
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,195,316</b>	<b>3,947,911</b>	<b>50,555</b>	<b>184,206</b>	<b>9,377,988</b>	<b>901,451</b>	<b>\$ 429,935</b>	<b>10,709,374</b>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	497,367	(679,468)	152,530	(123,687)	(153,258)	(486,941)	(7,098)	(647,297)
OTHER FINANCING SOURCES (USES)								
Transfers in	34,670	507,450	428,837	565,156	1,536,113			1,536,113
Transfers out	(1,077,450)	(29,826)		(428,837)	(1,536,113)			(1,536,113)
Bond proceeds				3,240,000	3,240,000			3,240,000
Donations							15,632	15,632
Bond issuance cost				(71,899)	(71,899)			(71,899)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,042,780)</b>	<b>477,624</b>	<b>428,837</b>	<b>3,304,420</b>	<b>3,168,101</b>		<b>15,632</b>	<b>3,183,733</b>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(545,413)	(201,844)	581,367	3,180,733	3,014,843	(486,941)	8,534	2,536,436
FUND BALANCES - JANUARY 1	1,892,275	1,380,222			3,272,497	581,966	399,650	4,254,113
FUND BALANCES - DECEMBER 31	<u>\$ 1,346,862</u>	<u>\$ 1,178,378</u>	<u>\$ 581,367</u>	<u>\$ 3,180,733</u>	<u>\$ 6,287,340</u>	<u>\$ 95,025</u>	<u>\$ 408,184</u>	<u>\$ 6,790,549</u>

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



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

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

*Discretely presented component units*

Baxter County Library Board – County Ordinance No. 78-48 established the Baxter 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 devises to be used in accordance with Ark. Code Ann. 13-2-404.

Baxter County Regional Airport – The County issued a court order on March 16, 1978 to establish the Baxter County Airport Commission pursuant to Ark. Code Ann. 14-357-101 through 14-357-108.

Complete financial information may be obtained from the Baxter County Library at 424 West 7<sup>th</sup> Street, Mountain Home, AR 72653, the Baxter County Regional Airport at 6462 Hwy. 126 North, Midway, AR 72651 and the County Treasurer at the courthouse.

Baxter Manor Nursing Home, a long-term care facility, is governed by an independent five member Board of Directors who are appointed by the Baxter County Judge and approved by the Baxter County Quorum Court. The Nursing Home receives no funding from the general revenues of Baxter County. The operation of the Nursing Home is supported by the fees charged for long-term care services provided.

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Agency Funds - Agency Funds are used to account for assets held by the entity as an agent for individuals, private organizations, other governmental units, and other funds.

Account Groups

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

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

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

D. Fixed Assets

1. General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets excluding infrastructure assets are capitalized at cost in the general fixed assets group of accounts. Gifts or contributions or general fixed assets purchased at nominal sums are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Infrastructure assets, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other elements of public domain are not reported in the general fixed assets group of accounts. Such assets are immovable and of value only to the County. No depreciation has been provided on general fixed assets. Interest incurred during construction is not capitalized.
2. Donated property consisting of land and equipment in the amounts of \$45,000 and \$6,578, respectively, were added to general fixed assets.

E. Property Taxes

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

F. Investments

Investments, except for certificates of deposit are reported at fair value. Fair value for reporting purposes is market value if a market price or quote is readily available. Investments that do not have readily available market prices or quotes are reported at estimated fair value. Certificates of deposit are reported at cost.

G. Fund Equity

Fund Balance -

1. Reserved Fund Balance indicates that portion of fund equity which has been legally segregated for specific purposes.
2. Designated Fund Balance indicates that portion of fund equity for which the entity has made tentative plans.
3. Undesignated Fund Balance indicates that portion of fund equity which is available for budgeting in future periods.

H. Budgetary Controls

1. Legal Requirements

State law requires that the Quorum Court, before the end of each fiscal year, make appropriations, by ordinance, for the expenses of county government (General and Special Revenue Funds) for the following year. The Quorum Court may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to the year-end.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Budgetary Controls (Continued)

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 Sheriff's Communication Facilities and Equipment Fund and the Sheriff's Drug Fund. Formal budgetary policies are not employed for the Fiduciary Fund Types, the Capital Projects Fund, the Debt Service Fund, the Sheriff's Communication Facilities and Equipment Fund and the Sheriff's Drug Fund.

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

Fund	Budgeted Revenues and Other Sources	Actual Revenues and Other Sources	Excess	Appropriations	Actual Expenditures and Other Uses	Excess
General	\$ 5,858,135	\$ 5,764,613	\$ (93,522)	\$ 6,502,438	\$ 6,272,766	\$ 229,672
Special Revenue:						
Road	2,855,525	2,837,910	(17,615)	2,980,114	2,967,417	12,697
Public Defender	20,600	29,545	8,945	24,550	12,758	11,792
Support Cost	9,000	9,467	467	15,150	12,212	2,938
Boating Safety	14,100	17,497	3,397	16,352	15,354	998
Small Claims	9,435	10,036	601	11,911	11,911	
Sheriff's Special	12,875	11,720	(1,155)	17,275	5,300	11,975
E-911	237,000	281,081	44,081	392,184	354,659	37,525
Recorder's Cost	144,100	228,287	84,187	179,068	147,273	31,795
Treasurer's Automation	11,000	22,314	11,314	27,077	22,665	4,412
Wolf House		1,160	1,160	80,741	62,242	18,499
Collector's Automation	19,625	61,658	42,033	37,172	37,172	
Grant Funds	352,658	253,602	(99,056)	359,119	289,784	69,335
West Nile	13,174	13,174		13,174	97	13,077
Juvenile Probation	15,150	17,616	2,466	14,630	13,908	722
Sheriff's						
Communication		40,584	40,584		24,435	(24,435)
Sheriff's Drug					550	(550)

I. Cash Equivalents

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

NOTE 2: Memorandum Totals

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

NOTE 3: Public Fund Deposits and Investments

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

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

NOTE 3: Public Fund Deposits and Investments (Continued)

(A) Information disclosing whether deposits are:

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

(B) Information disclosing whether investments are:

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

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

NOTE 4: Legal or Contractual Provisions for Deposits and Investments

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

NOTE 5: Fund Presentation

The Special Revenue Fund heading as it appears in the financial statements includes the following funds: County Road, Public Defender, Support Cost, Boating Safety, Small Claims, Sheriff's Special Projects, Sheriff's Communication Facilities and Equipment, E-911, Recorder's Cost, Treasurer's Automation, Wolf House, Collector's Automation, West Nile, Juvenile Probation, Grants Fund and Sheriff's Drug Fund.

NOTE 6: Public Fund Investments

A summary of investments by fund types is as follows:

Fund Type	December 31, 2002	
	Reported Amount	Fair Value
General	\$ 660,372	\$ 660,372
Special Revenue	313,795	313,795
Debt Service	581,367	581,367
Total Primary Government	1,555,534	1,555,534
Component Unit: Library Board	259,773	259,773
Total Reporting Entity	\$ 1,815,307	\$ 1,815,307

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

NOTE 6: Public Fund Investments (Continued)

These investments are composed of the following:

	December 31, 2002	
	Reported Amount	Fair Value
Treasury obligations	\$ 144,355	\$ 144,355
Certificates of deposit	1,670,952	1,670,952
Totals	\$ 1,815,307	\$ 1,815,307

NOTE 7: Changes in General Fixed Assets

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Land and buildings	\$ 4,473,257	\$ 110,125	\$ 1,599	\$ 4,581,783
Improvements	236,850	9,525		246,375
Construction in progress		119,082		119,082
Equipment	8,025,092	455,544	249,037	8,231,599
Totals	\$ 12,735,199	\$ 694,276	\$ 250,636	\$ 13,178,839

NOTE 8: Changes in Component Unit Fixed Assets

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
<u>County Library Board</u>				
Equipment	\$ 38,703	\$ 13,556	\$ 22,067	\$ 30,192
<u>County Airport Commission</u>				
Land and buildings	\$ 552,185			\$ 552,185
Improvements	1,809,529			1,809,529
Construction in progress	36,000	\$ 572,012		608,012
Equipment	53,709	8,373	\$ 11,883	50,199
Totals	\$ 2,451,423	\$ 580,385	\$ 11,883	\$ 3,019,925

NOTE 9: Compensated Absences

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

BAXTER COUNTY, ARKANSAS  
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NOTE 10: Long-Term Debt

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

	December 31, 2002
Bonded indebtedness titled Baxter County, Arkansas Capital Improvement Hospital Lease Revenue Bonds (Jail Expansion Project) in the amount of \$3,240,000. These bonds were issued for the purpose of acquiring, constructing and equipping an expansion to the County Jail. The bonds shall be payable from the hospital lease revenues received by the County. This bond issue will pay out in the year 2012. Payments are to be made from the Debt Service Fund.	\$ 3,240,000
Promissory Note with TrustBanc in the amount of \$980,893. Proceeds were used to purchase road equipment. Annual installments of \$227,115 for five ( 5 ) years. Payments are to be made from the County Road Fund.	762,648
Lease-purchase agreement with Fleet Leasing Corporation for the purchase of E-911 equipment, monthly installments of \$4,891 for five ( 5 ) years. Payments are to be made from the E-911 Fund.	107,637
Lease-purchase agreement with Caterpillar Financial Services Corporation on the purchase of two ( 2 ) Cat graders, annual installments of \$37,310 for three ( 3 ) years with a final balloon payment of \$283,000. Payments are to be made from the County Road Fund.	282,958
Total Debt - Primary Government	\$ 4,393,243

B. Long-term debt of the Component Unit -Baxter Regional Airport, at December 31, 2002, is comprised of the following:

Bonded indebtedness titled Baxter County, Arkansas Airport Revenue Bonds in the amount of \$701,000. These bonds were issued for the purpose of refunding a lease-purchase contract for airport hangars and the construction of additional airport hangars. The bonds shall be payable from airport hangar revenues received by the Airport Commission.	\$ 686,660
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BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

NOTE 11: Changes in General Long-Term Debt

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

Primary Government	2002
General Long-Term Debt at January 1	\$ 1,511,624
Additions:	
Bonds	3,240,000
Deletions:	
Lease payments	140,136
Note payments	218,245
General Long-Term Debt at December 31	\$ 4,393,243

The following is a summary of transactions of the Component Unit - Baxter County Airport Commission for the year ended December 31, 2002:

General Long-Term Debt at January 1	\$ 701,000
Deletions:	
Bond payments	14,340
General Long-Term Debt at December 31	\$ 686,660

NOTE 12: Debt Service Requirements to Maturity – Bonded Debt

Annual requirements to amortize outstanding bonded debt are as follows:

Primary Government Years Ending December 31,	December 31, 2002		
	Principal	Interest	Total
2003	\$ 155,000	\$ 133,557	\$ 288,557
2004	205,000	129,063	334,063
2005	260,000	122,912	382,912
2006	320,000	113,813	433,813
2007	340,000	101,812	441,812
2008 through 2012	1,960,000	277,463	2,237,463
Totals	\$ 3,240,000	\$ 878,620	\$ 4,118,620

BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 12: Debt Service Requirements to Maturity – Bonded Debt (Continued)

<u>Component Unit - Airport Commission</u> Years Ending December 31,	December 31, 2002		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 21,721	\$ 33,929	\$ 55,650
2004	22,803	32,847	55,650
2005	24,012	31,638	55,650
2006	25,212	30,437	55,649
2007	26,497	29,153	55,650
2008 through 2012	<u>566,415</u>	<u>229,980</u>	<u>796,395</u>
Totals	<u>\$ 686,660</u>	<u>\$ 387,984</u>	<u>\$ 1,074,644</u>

The reserve in the Debt Service Fund for the Primary Government and the Component Unit – Airport Commission is \$581,367 and \$56,763, respectively, as of December 31, 2002.

The County is in compliance with all significant limitations and restrictions contained in various bond indentures.

NOTE 13: Debt Service Requirements to Maturity – Notes Payable

Annual requirements to amortize outstanding note payable are as follows:

<u>Years Ending</u> <u>December 31,</u>	December 31, 2002		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 188,068	\$ 39,048	\$ 227,115
2004	197,697	29,419	227,115
2005	207,819	19,296	227,115
2006	<u>169,064</u>	<u>8,656</u>	<u>227,115</u>
Totals	<u>\$ 762,648</u>	<u>\$ 96,419</u>	<u>\$ 908,460</u>

NOTE 14: Capital Leases

The County has leased certain equipment which under the Financial Accounting Standards Board Statement No. 13 (FASB 13) is treated as capital leases. These leases by category are as follows:

<u>Class of Property - Primary Government</u>	<u>Asset Balance</u>
	<u>December 31,</u> <u>2002</u>
Road equipment	\$ 652,013
E-911 equipment	262,234



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

NOTE 14: Capital Leases (Continued)

The following is a schedule by years of future lease payments still remaining as of December 31, 2002:

<u>Years Ending December 31,</u>			
2003	\$	341,694	
2004		53,803	
Total Minimum Lease Payments		<u>395,497</u>	
Less: Amount representing interest		<u>4,902</u>	
Net Lease Payments	\$	<u><u>390,595</u></u>	

NOTE 15: Legal Debt Limit - Tax Secured Bond Issues

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2002, the legal debt limit for the County was \$40,668,227.

NOTE 16: Designated Fund Balance

Designated fund balance consists of the following:

	<u>December 31, 2002</u>
General Fund - Contingency Fund	\$ 533,026
General Fund - Change Fund	300
General Fund - Petty Cash Fund	<u>750</u>
Subtotal Primary Government	534,076
Library Fund - Petty Cash Fund	<u>300</u>
Total Reporting Entity	<u><u>\$ 534,376</u></u>

NOTE 17: Deficit Fund Balances

The following fund has a deficit fund balance as of December 31, 2002:

	<u>December 31, 2002</u>
Grants Fund	<u><u>\$ (39,280)</u></u>

NOTE 18: Commitments

- A. On November 13, 2002, the County accepted a bid of \$735,048 from Equity Valuations, Inc., for the reappraisal of all real estate parcels. The balance due on the contract at December 31, 2002 was \$735,048.
- B. On October 22, 2002, the County accepted a bid of \$3,177,997 for the construction of the Baxter County Detention Facility. The balance due on the contract at December 31, 2002 was \$3,177,997.

BAXTER COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 18: Commitments (Continued)

C. On November 13, 2001, the County accepted a bid of \$397,962 from FBR Company for the construction of two (2) airport hangars. The balance due on the contract at December 31, 2002 was \$36,074.

NOTE 19: Hospital Lease Revenue Bonds (Jail Expansion Project)

These bonds were issued for the purpose of financing a portion of the costs of acquiring, constructing and equipping an expansion to the County Jail in the amount of \$3,240,000. The bonds shall be payable from the lease revenues to be received by the County pursuant to a Lease and Sale Agreement with Baxter County Regional Medical Center, dated June 25, 1982, as amended November 7, 1989. These bonds were dated March 15, 2002 with interest payable on February 1 and August 1, and final maturity will be in 2012.

NOTE 20: Related Party Transactions

During 2002, the County paid \$53,816 to Charles Slater for the preparation of maps for the County. County Surveyor Charles Slater has an investment or holding in Slater Surveying and Mapping. On April 1, 1997, the County approved Ordinance No. 97-23 allowing the County to do business with Slater Surveying and Mapping.

During 2002, the County donated \$4,940 to the Baxter County Regional Airport Commission to be utilized for airport improvements.

NOTE 21: 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.

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 22: 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.

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

NOTE 22: 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, 2002, 2001 and 2000 were \$353,509, \$277,905 and \$222,808, respectively, equal to the required contributions for each year.

NOTE 23: Revenue Bond Issues

The following revenue bonds were issued for securing and developing industry within Baxter County. The bonds are being retired by a lease-rental plan with the following corporations:

<u>Corporation</u>	<u>Ordinance Authorizing Issuance</u>	<u>Date of Issuance</u>	<u>Original Amount of Bonds Issued</u>	<u>Bonds Outstanding as of December 31, 2002</u>
Aeroquip Corporation	93-53	10/1/1993	\$ 7,200,000	\$ 7,200,000
Baxter County Regional Hospital	99-53	05/01/99	79,845,000	78,750,000
Totals			<u>\$ 87,045,000</u>	<u>\$ 85,950,000</u>

The bonds are special obligation bonds of the County and do not constitute an indebtedness of the County within any Constitutional or statutory limitation, but are payable solely from lease-rentals of certain properties, and are secured by a statutory mortgage lien on the same. Accordingly, these bonds are not reflected on the accompanying financial statements.