

Baxter County, Arkansas

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

December 31, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



BAXTER COUNTY, ARKANSAS
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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

REGULATORY BASIS FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet – Regulatory Basis	A
Combined Statement of Receipts, Disbursements and Changes in Fund Balances – Regulatory Basis	B
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual – General and Road Funds – Regulatory Basis	C
Notes to Financial Statements	

OTHER SUPPLEMENTARY INFORMATION

	<u>Schedule</u>
Schedule of Capital Assets (Unaudited)	1

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Baxter 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 Baxter 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 Baxter 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.

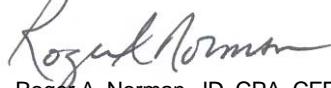
The financial statements referred to above do not disclose all the required information concerning deposit risk, which should be included in order to conform with the regulatory basis of accounting described in Note 1(C).

In our opinion, except for the effects on the financial statements of the omission 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 Baxter 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 on the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2007 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



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

Little Rock, Arkansas
February 26, 2007
LOCO00305

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

Baxter 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 Baxter County, Arkansas, as of and for the year ended December 31, 2005 and have issued our report thereon dated February 26, 2007. 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 risk. 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.

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

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

Compliance and Other Matters

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

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: Dan Hall
Treasurer: Nelda Speaks
Sheriff: John Montgomery
Tax Collector: Willa Mae Tilley
County and Circuit Clerk: Rhonda Porter
District Court Clerk: Linda Shaffer

Our audit procedures indicated that the Offices of **County Judge, Treasurer, Sheriff, Tax Collector, County and Circuit Clerk** and **District Court Clerk** were in substantial compliance with Arkansas fiscal and financial laws.

We performed audit procedures on the information system controls in the Offices of **Tax Collector** and **Treasurer** for the period December 12, 2006 through January 30, 2007. The following information systems control weaknesses were noted:

Treasurer

Terminated employees security access is not being removed in a timely manner. This increases the likelihood that an unauthorized person could gain access to the system.

Collector

Some users have excessive access to the application. Users should only have access necessary to perform their job role. Failure to properly assign access permissions increases the risk of accidental or intentional unauthorized transactions or data manipulation. Also, the application vendor has high-level access to the Collector's application and serves as the Security Administrator. Information system control standards dictate that personnel with the ability to change data in the system should not have the ability to change program logic. Access to both application data files and program logic affords the possibility of processing and concealing unauthorized transactions.

Data integrity controls were inadequate. Sound information system practices dictate that appropriate input edit checks should be in place to prevent erroneous data from entering the system.

The public access PC did not restrict access to application database files. Utilizing other software, application controls could be circumvented allowing for full, total unrestricted access to the application data.

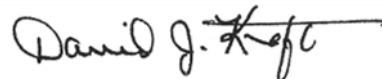
Treasurer and Collector

Weak password control parameters existed. This condition could lead to unauthorized transactions being processed in the system.

There is no formal documented and approved disaster recovery plan. This situation could cause the County to be without computer processing for an extended period of time in the event of a disaster or major interruption and could also place a financial and personnel burden on the resources of the County.

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
February 26, 2007

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

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 3,238,454	\$ 758,672	\$ 3,074,277
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll taxes withheld	\$ 26,641	\$ 10,041	\$ 10,724
Settlements pending	495,456		621,307
Total Liabilities	522,097	10,041	632,031
Fund Balances:			
Reserved		748,631	2,442,246
Unreserved:			
Undesignated	2,716,357		
Total Fund Balances	2,716,357	748,631	2,442,246
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 3,238,454	 \$ 758,672	 \$ 3,074,277

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

BAXTER 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	\$ 729,972	\$ 1,455,062	\$ 269,254
Federal aid	87,137	798,588	570,343
Property taxes	282,767	753,065	356,708
Sales taxes	3,139,379		
Fines, forfeitures and costs	435,544		34,410
Interest	52,145	8,129	58,416
Officers' fees	195,398		338,619
E-911 fees			307,754
Donations			61,958
Alternative school fees			646,301
Jail fees	81,343		19,755
Hospital lease	191,638		408,363
Airport fees			106,583
Treasurer's commission	63,030		24,832
Collector's commission	229,103		71,385
Taxes apportioned - Assessor's salary and expense	388,504		
Other	167,895	164,880	111,473
	6,043,855	3,179,724	3,386,154
TOTAL RECEIPTS			
Less: Treasurer's commission	37,952	49,425	36,896
	6,005,903	3,130,299	3,349,258
NET RECEIPTS			
DISBURSEMENTS			
Current:			
General government	1,773,721		667,453
Law enforcement	3,178,188		982,726
Highways and streets	56,058	3,187,781	
Public safety	510,835		513,152
Health	70,937		
Recreation and culture	3,500		1,060,285
Social services	43,787		
Total Current	5,637,026	3,187,781	3,223,616
Debt Service:			
Bond principal			283,642
Bond interest and other charges			156,597
Note principal		207,627	
Note interest		19,488	
	5,637,026	3,414,896	3,663,855
TOTAL DISBURSEMENTS			
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	368,877	(284,597)	(314,597)

BAXTER 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	\$ 117,820	\$ 716,389	\$ 57,747
Transfers out	(774,136)	(88,491)	(29,329)
TOTAL OTHER FINANCING SOURCES (USES)	(656,316)	627,898	28,418
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(287,439)	343,301	(286,179)
FUND BALANCES - JANUARY 1	3,003,796	405,330	2,728,425
FUND BALANCES - DECEMBER 31	\$ 2,716,357	\$ 748,631	\$ 2,442,246

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

BAXTER 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	\$ 771,747	\$ 729,972	\$ (41,775)	\$ 1,471,840	\$ 1,455,062	\$ (16,778)
Federal aid	38,298	87,137	48,839	666,006	798,588	132,582
Property taxes	307,785	282,767	(25,018)	648,725	753,065	104,340
Sales taxes	2,923,500	3,139,379	215,879			
Fines, forfeitures and costs	433,046	435,544	2,498			
Interest	25,366	52,145	26,779	2,000	8,129	6,129
Officers' fees	215,680	195,398	(20,282)			
Jail fees		81,343	81,343			
Hospital lease		191,638	191,638			
Treasurer's commission	195,000	63,030	(131,970)			
Collector's commission	580,000	229,103	(350,897)			
Taxes apportioned - Assessor's salary and expense	313,850	388,504	74,654			
Other	485,376	167,895	(317,481)	130,570	164,880	34,310
TOTAL RECEIPTS	6,289,648	6,043,855	(245,793)	2,919,141	3,179,724	260,583
Less: Treasurer's commission		37,952	(37,952)		49,425	(49,425)
NET RECEIPTS	6,289,648	6,005,903	(283,745)	2,919,141	3,130,299	211,158
DISBURSEMENTS						
Current:						
General government	2,691,965	1,773,721	918,244			
Law enforcement	2,991,953	3,178,188	(186,235)			
Highways and streets		56,058	(56,058)	3,718,229	3,187,781	530,448
Public safety	488,278	510,835	(22,557)			
Health	32,000	70,937	(38,937)			
Recreation and culture	3,500	3,500				
Social services	45,656	43,787	1,869			
Total Current	6,253,352	5,637,026	616,326	3,718,229	3,187,781	530,448

BAXTER 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:						
Note principal					\$ 207,627	\$ (207,627)
Note interest					19,488	(19,488)
TOTAL DISBURSEMENTS	<u>\$ 6,253,352</u>	<u>\$ 5,637,026</u>	<u>\$ 616,326</u>	<u>\$ 3,718,229</u>	<u>3,414,896</u>	<u>303,333</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>36,296</u>	<u>368,877</u>	<u>332,581</u>	<u>(799,088)</u>	<u>(284,597)</u>	<u>514,491</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		117,820	117,820	686,537	716,389	29,852
Transfers out	<u>(686,536)</u>	<u>(774,136)</u>	<u>(87,600)</u>	<u>(88,491)</u>	<u>(88,491)</u>	<u>(88,491)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(686,536)</u>	<u>(656,316)</u>	<u>30,220</u>	<u>686,537</u>	<u>627,898</u>	<u>(58,639)</u>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	<u>(650,240)</u>	<u>(287,439)</u>	<u>362,801</u>	<u>(112,551)</u>	<u>343,301</u>	<u>455,852</u>
FUND BALANCES - JANUARY 1	<u>1,342,074</u>	<u>3,003,796</u>	<u>1,661,722</u>	<u>255,000</u>	<u>405,330</u>	<u>150,330</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 691,834</u></u>	<u><u>\$ 2,716,357</u></u>	<u><u>\$ 2,024,523</u></u>	<u><u>\$ 142,449</u></u>	<u><u>\$ 748,631</u></u>	<u><u>\$ 606,182</u></u>

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

BAXTER 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.

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 Fund and Baxter County Nursing Home Fund.

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: County Library, Ozark Regional Airport, Public Defender, Support Cost, Boating Safety, Small Claims, Sheriff's Special, Sheriff's Communication Facilities and Equipment, E-911, Recorder's Cost Fund, Treasurer's Automation, Wolf House, Grant Funds, West Nile Virus, Collector's Automation, Juvenile Services, Special Jail Fees, Court Automation, Animal Control, Sheriff's Drug Fund and Office of Emergency Management/Homeland Security.

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 fund is reported with other funds in the aggregate: Jail Construction Fund.

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. The following debt service funds are reported with other funds in the aggregate: County Jail Debt Service Fund and Airport Debt Service Fund.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation – Regulatory Fund Accounting (Continued)

Other Funds in the Aggregate (Continued)

Agency Funds - Agency Funds are used to account for assets held by the entity as an agent for individuals, private organizations, other governmental units, and other funds. The following agency funds are reported with other funds in the aggregate: Treasurer (Property Tax Relief, Collector's Unapportioned, Unapportioned Interest and Law Library), Collector (Current Taxes and Delinquent Taxes), Sheriff (Fee, Bond and Fine, Circuit Bond, Seizure and Commissary), County and Circuit Clerk (County Clerk's Fee and County Clerk's Trust), Juvenile Probation (Fee) and District Court (District Court County and District Court Probation).

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 investments, payroll taxes withheld, and 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 accounts and certificates of deposit.

Liabilities

For the purpose of financial reporting, liabilities include payroll taxes withheld but not yet paid and settlements pending. Settlements pending are considered fines, forfeitures, costs and officer fees 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.

BAXTER 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 Sheriff's Communication Facilities and Equipment Fund and Sheriff's Drug Fund.

NOTE 2: Cash

Deposit risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk have not been provided as required by Governmental Accounting Standards Board Statement No. 40.

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

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

NOTE 4: Legal Debt Limit - 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 \$51,414,239.

NOTE 5: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2005
<u>Road</u>	\$ 748,631
<u>Other Funds in the Aggregate</u>	
Special Revenue Funds:	
Public Defender	\$ 68,176
Support Cost	28,922
Boating Safety	11,345
Sheriff's Special	18,259
Sheriff's Communications Facilities and Equipment	4,995
E-911	175,865
Recorder's Cost	603,020

BAXTER 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)	
Treasurer's Automation	\$ 19,384
Wolf House	14,142
Grant Funds	68,655
West Nile Virus	6,878
Collector's Automation	144,015
Juvenile Probation Fee	9,136
Special Jail Fees	13,837
Court Automation	26,131
OEM / Homeland Security	78
Animal Control	7,296
Sheriff's Drug Fund	4,375
County Library	267,129
County Airport	190,865
Total Special Revenue	1,682,503
Capital Projects:	
Jail Construction	72,748
Debt Service:	
County Jail Debt Service	686,995
Total Other Funds in the Aggregate	\$ 2,442,246

NOTE 6: Commitments

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

	December 31, 2005
General Long-Term Debt	\$ 2,789,257
Noncancellable Leases	6,134
Airport Long-Term Debt	618,495
Total Commitments	\$ 3,413,886

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

NOTE 6: Commitments (Continued)

Long-Term Debt

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

	December 31, 2005
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.	\$ 2,620,000
Promissory note with Trustbanc (Liberty Bank) 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.	169,257
Bonded indebtedness titled Baxter County, Arkansas Airport Revenue Bonds in the amount of \$701,000. These bonds were issued for the purpose of refunding the lease-purchase contract for airport hangars and the construction of additional airport hangars. The bonds shall be payable from airport hangar revenues by the Airport Commission.	618,495
Total	\$ 3,407,752

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

Compensated Absences

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

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

Years Ending December 31,	Bonds	Notes	Total
2006	\$ 489,461	\$ 178,244	\$ 667,705
2007	497,463		497,463
2008	498,862		498,862
2009	498,774		498,774
2010	507,495		507,495
2011 through 2015	1,177,528		1,177,528
2016 through 2020	278,248		278,248
2021 through 2022	73,321		73,321
Total Obligations	4,021,152	178,244	4,199,396
Less Interest	782,657	8,987	791,644
Total Principal	\$ 3,238,495	\$ 169,257	\$ 3,407,752

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

NOTE 6: Commitments (Continued)

Noncancellable Lease

The County entered into a noncancellable lease agreement for a lease vehicle on May 24, 2005. Terms of the lease are monthly rental payments of \$383 for 24 months. At the end of the lease term, the County will return the vehicle to the lessor since there is no purchase option in the lease contract. The County is obligated for the following amounts for the next two years:

<u>Year</u>	<u>Amount</u>
2006	\$ 4,601
2007	1,533
Total	<u>\$ 6,134</u>

Rental expense for 2005 was \$3,067.

NOTE 7: 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, 2005</u>
Aeroquip Corporation	93-53	10/01/93	\$ 7,200,000	\$ 7,200,000
Baxter County Regional Hospital	99-53	05/01/99	79,845,000	74,055,000
Totals			<u>\$ 87,045,000</u>	<u>\$ 81,255,000</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 and are secured by a statutory mortgage lien on the same.

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.

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

NOTE 8: Risk Management (Continued)

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.

BAXTER COUNTY, ARKANSAS
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)

Schedule 1

	<u>December 31, 2005</u>
Land and buildings	\$ 9,404,639
Improvements	2,415,820
Construction in progress	79,316
Equipment	<u>8,730,512</u>
Total	<u><u>\$ 20,630,287</u></u>