

**Baxter County, Arkansas**

**Regulatory Basis Financial Statements  
and Other Reports**

**December 31, 2006**

LEGISLATIVE JOINT AUDITING COMMITTEE

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BAXTER COUNTY, ARKANSAS  
TABLE OF CONTENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Independent Auditor's Report  
Report on Internal Control Over Financial Reporting, Compliance and Other Matters, and Other Issues Based on an  
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

REGULATORY BASIS FINANCIAL STATEMENTS

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

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Baxter County, Arkansas, as of December 31, 2006, or the changes in its financial position or where applicable, its cash flows, thereof for the year then ended. Further, the County has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In our opinion, 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, 2006, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and road fund for the year then ended on the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008 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 of presentation and is presented for the purpose of additional analysis. We have not applied auditing procedures to this information and, accordingly, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Roger A. Norman".

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

Little Rock, Arkansas  
January 29, 2008  
LOCO00306

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

# Arkansas



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

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS, AND OTHER ISSUES BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2006, and have issued our report thereon dated January 29, 2008. We issued an adverse opinion because the County prepared the financial statements using accounting principles prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the basis of accounting described in Note 1(B and C), our opinions on the general fund, road fund, and other funds in the aggregate were qualified because required disclosures were not made concerning deposit risks. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of Baxter County, Arkansas, as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

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

2006-1 To ensure the proper safeguarding of assets, financial accounting duties relating to initiating, receipting, depositing, disbursing, and recording cash transactions should be distributed among appropriate employees. The County officials, as specified in the Other Issues section of this report, did not segregate these duties to sufficiently reduce the risks of fraud or error and properly safeguard the County's assets, because of limited financial resources. We recommend that the financial accounting duties in each office be segregated among employees to the extent possible.

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

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

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

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

#### Compliance and Other Matters

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

#### Other Issues

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

The commentary contained in this section relates to the following officials that held office during 2006:

County Judge: Dan Hall  
Treasurer: Nelda Speaks  
Sheriff: John Montgomery  
Tax Collector: Willa Mae Tilley  
County and Circuit Clerk: Rhonda Porter  
District Court Clerk: Linda Shaffer  
Librarian: Gwen Khayat  
Airport Manager: Keith English

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

We performed audit procedures on the information system controls in the Offices of the **Tax Collector and Treasurer** for the period December 12, 2006 through January 30, 2007. A follow-up audit completed November 27, 2007 was performed to update the status of the outstanding issues. The County has made progress in correcting these weaknesses over the past year; however, the following issues are still outstanding:

#### **Tax Collector**

Some users have excessive access to the application. Users should only have access necessary to perform their job role.

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.

Weak password control parameters existed.

#### **Treasurer and Tax Collector**

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

A handwritten signature in cursive script that reads "June M. Barron".

June M. Barron, CPA, CFE  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 29, 2008

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

Exhibit A

|  | General             | Road              | Other Funds<br>In The<br>Aggregate |
|--|---------------------|-------------------|------------------------------------|
| <b>ASSETS</b>                              |                     |                   |                                    |
| Cash and cash equivalents                  | \$ 3,078,144        | \$ 477,453        | \$ 4,047,508                       |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                   |                                    |
| Liabilities:                               |                     |                   |                                    |
| Payroll taxes withheld                     | \$ 30,561           | \$ 10,850         | \$ 9,691                           |
| Settlements pending                        | 517,163             |                   | 1,057,180                          |
| Total Liabilities                          | 547,724             | 10,850            | 1,066,871                          |
| Fund Balances:                             |                     |                   |                                    |
| Reserved                                   |                     | 466,603           | 2,980,637                          |
| Unreserved:                                |                     |                   |                                    |
| Undesignated                               | 2,530,420           |                   |                                    |
| Total Fund Balances                        | 2,530,420           | 466,603           | 2,980,637                          |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 3,078,144</b> | <b>\$ 477,453</b> | <b>\$ 4,047,508</b>                |

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

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

|   | General    | Road         | Other Funds<br>In The<br>Aggregate |
|---|------------|--------------|------------------------------------|
| RECEIPTS  |            |              |                                    |
| State aid   | \$ 830,532 | \$ 1,412,612 | \$ 465,615                         |
| Federal aid                                       | 47,080     | 179,788      | 1,261,443                          |
| Property taxes                                    | 299,309    | 803,586      | 382,107                            |
| Sales taxes                                       | 3,382,063  |              |                                    |
| Fines, forfeitures and costs                      | 423,881    |              | 71,620                             |
| Interest  | 153,340    | 15,904       | 80,765                             |
| Officers' fees                                    | 209,439    |              | 342,948                            |
| Hospital lease                                    | 162,188    |              | 437,813                            |
| Donations   |            |              | 31,467                             |
| 911 fees  |            |              | 310,474                            |
| Alternative school fees                           |            |              | 596,974                            |
| Jail fees   | 89,033     |              |                                    |
| Airport fees                                      |            |              | 106,224                            |
| Treasurer's commission                            | 62,298     |              | 26,178                             |
| Collector's commission                            | 236,169    |              | 90,563                             |
| Taxes apportioned - Assessor's salary and expense | 399,651    |              |                                    |
| Other   | 192,192    | 149,606      | 171,175                            |
|   | 6,487,175  | 2,561,496    | 4,375,366                          |
| TOTAL RECEIPTS                                    |            |              |                                    |
| Less: Treasurer's commission                      | 39,910     | 49,842       | 38,912                             |
|   | 6,447,265  | 2,511,654    | 4,336,454                          |
| NET RECEIPTS                                      |            |              |                                    |
| DISBURSEMENTS                                     |            |              |                                    |
| Current:  |            |              |                                    |
| General government                                | 1,712,924  |              | 1,498,415                          |
| Law enforcement                                   | 3,462,399  |              | 866,923                            |
| Highways and streets                              | 128,409    | 2,894,680    |                                    |
| Public safety                                     | 593,193    |              | 527,781                            |
| Health  | 97,343     |              |                                    |
| Recreation and culture                            | 3,500      |              | 702,483                            |
| Social services                                   | 45,448     |              |                                    |
| Total Current                                     | 6,043,216  | 2,894,680    | 3,595,602                          |

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

Exhibit B

|   | General             | Road              | Other Funds<br>In The<br>Aggregate |
|---|---------------------|-------------------|------------------------------------|
| DISBURSEMENTS (Continued)   |                     |                   |                                    |
| Debt Service:   |                     |                   |                                    |
| Bond principal  |                     |                   | \$ 345,212                         |
| Bond interest and other charges   |                     |                   | 145,846                            |
| Lease principal   |                     | \$ 10,524         |                                    |
| Lease interest  |                     | 11,622            |                                    |
| Note principal  |                     | 169,257           |                                    |
| Note interest   |                     | 8,988             |                                    |
|   |                     |                   |                                    |
| TOTAL DISBURSEMENTS   | <u>\$ 6,043,216</u> | <u>3,095,071</u>  | <u>4,086,660</u>                   |
| EXCESS OF RECEIPTS OVER (UNDER)<br>DISBURSEMENTS                                  | <u>404,049</u>      | <u>(583,417)</u>  | <u>249,794</u>                     |
| OTHER FINANCING SOURCES (USES)  |                     |                   |                                    |
| Transfers in  | 392,769             | 492,830           | 684,617                            |
| Transfers out   | <u>(982,755)</u>    | <u>(191,441)</u>  | <u>(396,020)</u>                   |
| TOTAL OTHER FINANCING SOURCES (USES)  | <u>(589,986)</u>    | <u>301,389</u>    | <u>288,597</u>                     |
| EXCESS OF RECEIPTS AND OTHER SOURCES OVER<br>(UNDER) DISBURSEMENTS AND OTHER USES | <u>(185,937)</u>    | <u>(282,028)</u>  | <u>538,391</u>                     |
| FUND BALANCES - JANUARY 1   | <u>2,716,357</u>    | <u>748,631</u>    | <u>2,442,246</u>                   |
| FUND BALANCES - DECEMBER 31   | <u>\$ 2,530,420</u> | <u>\$ 466,603</u> | <u>\$ 2,980,637</u>                |

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, 2006

Exhibit C

|   | General          |                  |  | Road             |                  |  |
|---|------------------|------------------|--|------------------|------------------|--|
|   | Budget           | Actual           | Variance<br>Favorable<br>(Unfavorable) | Budget           | Actual           | Variance<br>Favorable<br>(Unfavorable) |
| RECEIPTS  |                  |                  |  |                  |                  |  |
| State aid   | \$ 499,994       | \$ 830,532       | \$ 330,538                             | \$ 1,376,000     | \$ 1,412,612     | \$ 36,612                              |
| Federal aid                                       | 38,207           | 47,080           | 8,873                                  | 175,000          | 179,788          | 4,788                                  |
| Property taxes                                    | 360,980          | 299,309          | (61,671)                               | 777,100          | 803,586          | 26,486                                 |
| Sales taxes                                       | 3,223,500        | 3,382,063        | 158,563                                |                  |                  |  |
| Fines, forfeitures and costs                      | 435,950          | 423,881          | (12,069)                               |                  |                  |  |
| Interest  | 20,491           | 153,340          | 132,849                                | 5,450            | 15,904           | 10,454                                 |
| Officers' fees                                    | 189,280          | 209,439          | 20,159                                 |                  |                  |  |
| Hospital lease                                    | 162,187          | 162,188          | 1                                      |                  |                  |  |
| Jail fees   | 68,000           | 89,033           | 21,033                                 |                  |                  |  |
| Treasurer's commission                            | 267,000          | 62,298           | (204,702)                              |                  |                  |  |
| Collector's commission                            | 630,095          | 236,169          | (393,926)                              |                  |                  |  |
| Taxes apportioned - Assessor's salary and expense | 346,000          | 399,651          | 53,651                                 |                  |                  |  |
| Other   | 439,840          | 192,192          | (247,648)                              | 87,157           | 149,606          | 62,449                                 |
| <b>TOTAL RECEIPTS</b>                             | <b>6,681,524</b> | <b>6,487,175</b> | <b>(194,349)</b>                       | <b>2,420,707</b> | <b>2,561,496</b> | <b>140,789</b>                         |
| Less: Treasurer's commission                      |                  | 39,910           | (39,910)                               |                  | 49,842           | (49,842)                               |
| <b>NET RECEIPTS</b>                               | <b>6,681,524</b> | <b>6,447,265</b> | <b>(234,259)</b>                       | <b>2,420,707</b> | <b>2,511,654</b> | <b>90,947</b>                          |
| DISBURSEMENTS                                     |                  |                  |  |                  |                  |  |
| Current:  |                  |                  |  |                  |                  |  |
| General government                                | 3,105,618        | 1,712,924        | 1,392,694                              |                  |                  |  |
| Law enforcement                                   | 3,071,922        | 3,462,399        | (390,477)                              | 3,203,680        | 2,894,680        | 309,000                                |
| Highways and streets                              |                  | 128,409          | (128,409)                              |                  |                  |  |
| Public safety                                     | 516,604          | 593,193          | (76,589)                               |                  |                  |  |
| Health  | 31,500           | 97,343           | (65,843)                               |                  |                  |  |
| Recreation and culture                            | 357              | 3,500            | (3,143)                                |                  |                  |  |
| Social services                                   | 31,886           | 45,448           | (13,562)                               |                  |                  |  |
| <b>Total Current</b>                              | <b>6,757,887</b> | <b>6,043,216</b> | <b>714,671</b>                         | <b>3,203,680</b> | <b>2,894,680</b> | <b>309,000</b>                         |

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, 2006

Exhibit C

|   | General             |                     |  | Road                |                   |  |
|---|---------------------|---------------------|--|---------------------|-------------------|--|
|   | Budget              | Actual              | Variance<br>Favorable<br>(Unfavorable) | Budget              | Actual            | Variance<br>Favorable<br>(Unfavorable) |
| DISBURSEMENTS (Continued)   |                     |                     |  |                     |                   |  |
| Debt Service:   |                     |                     |  |                     |                   |  |
| Lease principal   |                     |                     |  |                     | \$ 10,524         | \$ (10,524)                            |
| Lease interest  |                     |                     |  |                     | 11,622            | (11,622)                               |
| Note principal  |                     |                     |  |                     | 169,257           | (169,257)                              |
| Note interest   |                     |                     |  |                     | 8,988             | (8,988)                                |
| <b>TOTAL DISBURSEMENTS</b>  | <b>\$ 6,757,887</b> | <b>\$ 6,043,216</b> | <b>\$ 714,671</b>                      | <b>\$ 3,203,680</b> | <b>3,095,071</b>  | <b>108,609</b>                         |
| <b>EXCESS OF RECEIPTS OVER (UNDER)<br/>DISBURSEMENTS</b>                                  | <b>(76,363)</b>     | <b>404,049</b>      | <b>480,412</b>                         | <b>(782,973)</b>    | <b>(583,417)</b>  | <b>199,556</b>                         |
| OTHER FINANCING SOURCES (USES)  |                     |                     |  |                     |                   |  |
| Transfers in  |                     | 392,769             | 392,769                                |                     | 492,830           | 492,830                                |
| Transfers out   | (312,461)           | (982,755)           | (670,294)                              |                     | (191,441)         | (191,441)                              |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>   | <b>(312,461)</b>    | <b>(589,986)</b>    | <b>(277,525)</b>                       |                     | <b>301,389</b>    | <b>301,389</b>                         |
| <b>EXCESS OF RECEIPTS AND OTHER SOURCES OVER<br/>(UNDER) DISBURSEMENTS AND OTHER USES</b> | <b>(388,824)</b>    | <b>(185,937)</b>    | <b>202,887</b>                         | <b>(782,973)</b>    | <b>(282,028)</b>  | <b>500,945</b>                         |
| FUND BALANCES - JANUARY 1   | 1,200,000           | 2,716,357           | 1,516,357                              | 363,000             | 748,631           | 385,631                                |
| FUND BALANCES - DECEMBER 31   | <b>\$ 811,176</b>   | <b>\$ 2,530,420</b> | <b>\$ 1,719,244</b>                    | <b>\$ (419,973)</b> | <b>\$ 466,603</b> | <b>\$ 886,576</b>                      |

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

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

**NOTE 1: Summary of Significant Accounting Policies**

As discussed further in Note 1(B and C), these financial statements are presented in accordance with the regulatory basis of presentation and accounting as prescribed by Arkansas Code. This regulatory basis of presentation and accounting differs from accounting principles generally accepted in the United States of America.

**A. Financial Reporting Entity**

The County is a political subdivision of the state governed by an elected quorum court. The reporting entity includes all the funds of the County.

**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 and Baxter County Nursing Home.

**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, County Airport, Public Defender, Support Cost, Boating Safety, Sheriff's Special, Sheriff's Communication Facilities and Equipment, E-911, Recorder's Cost, 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, Assessor's Amendment No. 79 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.

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 and Airport Debt Service.

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).

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

**NOTE 1: Summary of Significant Accounting Policies (Continued)**

**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 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.

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.

**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 and Sheriff's Drug.

**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.

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

**NOTE 3: Legal or Contractual Provisions for Deposits and Investments**

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

**NOTE 4: Legal Debt Limit**

A. Bonded Debt

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2006, the legal debt limit for bonded debt was \$47,813,573. There were no property tax secured bond issues

B. Short-term Financing Obligations

The County is subject to a constitutional limitation for short-term financing obligations equal to two and one half percent (2.5%) of the assessed value of taxable property within the County as determined by the last tax assessment. At December 31, 2006, the legal debt limit for short-term financing obligations was \$12,683,868, the amount of short-term financing obligations was \$406,676, leaving a legal debt margin of \$12,277,192.

**NOTE 5: Federal Funds Program Compliance**

During 2006, the County expended sufficient federal grant funds to require a federal compliance audit. Federal funds expended by the County included the following grant funds: FAA Airport Construction grant, Americorp grant and Homeland Security grants. As of the report date, the County had contracted with an accounting firm to perform a federal compliance audit for 2007 and 2006.

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

**NOTE 6: Reserved Fund Balance**

Reserved fund balance consists of the following:

|  | December 31,<br>2006    |
|--|-------------------------|
| <u>Road</u>                                      | <u>\$ 466,603</u>       |
| <br><u>Other Funds in the Aggregate</u>          |                         |
| <u>Special Revenue Funds:</u>                    |                         |
| Public Defender                                  | \$ 73,179               |
| Support Cost                                     | 25,844                  |
| Boating Safety                                   | 7,586                   |
| Sheriff's Special                                | 17,595                  |
| Facilities and Equipment                         | 5,212                   |
| E-911  | 243,443                 |
| Recorder's Cost                                  | 743,580                 |
| Treasurer's Automation                           | 17,504                  |
| Wolf House                                       | 13,328                  |
| Grant Funds                                      | 430,358                 |
| West Nile Virus                                  | 6,878                   |
| Collector's Automation                           | 181,190                 |
| Juvenile Services                                | 7,742                   |
| Special Jail Fees                                | 19,098                  |
| Court Automation                                 | 45,108                  |
| Office of Emergency Management/Homeland Security | 78                      |
| Animal Control                                   | 16,639                  |
| Sheriff's Drug                                   | 4,155                   |
| County Library                                   | 222,574                 |
| County Airport                                   | 112,720                 |
| Assessor's Amendment No. 79                      | 5,270                   |
| Total Special Revenue                            | <u>2,199,081</u>        |
| <br><u>Capital Projects Fund:</u>                |                         |
| Jail Construction                                | <u>5,121</u>            |
| <br><u>Debt Service Funds:</u>                   |                         |
| County Jail Debt Service                         | 714,463                 |
| Airport Debt Service                             | 61,972                  |
| Total Debt Service                               | <u>776,435</u>          |
| <br>Total Other Funds in the Aggregate           | <br><u>\$ 2,980,637</u> |

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

**NOTE 7: Commitments**

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

|                        | December 31,<br>2006 |
|------------------------|----------------------|
| Long-Term Debt         | \$ 3,299,959         |
| Noncancellable Leases  | 1,917                |
| Construction Contracts | 48,938               |
| Total Commitments      | \$ 3,350,814         |

Long-Term Debt

Long-Term Debt at December 31, 2006 is comprised of the following:

|   | December 31,<br>2006 |
|---|----------------------|
| Bonded indebtedness entitled 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. | \$ 2,300,000         |
| Lease-purchase agreement with Caterpillar Financial Services Corporation in the amount of \$417,200. The County purchased three motor graders. Monthly payments of \$3,691 for 34 months with a final payment of \$347,691. Payments are to be made from the County Road Fund.  | 406,676              |
| Bonded indebtedness entitled 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.  | 593,283              |
| Total   | \$ 3,299,959         |

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.

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

**NOTE 7: Commitments (Continued)**

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

| <u>Years Ending<br/>December 31,</u> | <u>Bonds</u>        | <u>Leases</u>     | <u>Total</u>        |
|--------------------------------------|---------------------|-------------------|---------------------|
| 2007                                 | \$ 497,463          | \$ 44,293         | \$ 541,756          |
| 2008                                 | 498,861             | 44,293            | 543,154             |
| 2009                                 | 498,774             | 366,147           | 864,921             |
| 2010                                 | 507,495             |                   | 507,495             |
| 2011                                 | 504,720             |                   | 504,720             |
| 2012 through 2016                    | 728,459             |                   | 728,459             |
| 2017 through 2021                    | 278,248             |                   | 278,248             |
| 2022 through 2026                    | 17,671              |                   | 17,671              |
| Total Obligations                    | <u>3,531,691</u>    | <u>454,733</u>    | <u>3,986,424</u>    |
| Less Interest                        | <u>638,408</u>      | <u>48,057</u>     | <u>686,465</u>      |
| Total Principal                      | <u>\$ 2,893,283</u> | <u>\$ 406,676</u> | <u>\$ 3,299,959</u> |

Noncancellable Lease

The County entered into a noncancellable lease agreement for a 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 amount for the next year:

| <u>Year</u> | <u>Amount</u>   |
|-------------|-----------------|
| 2007        | <u>\$ 1,917</u> |

Rental expense for 2006 was \$4,601.

Construction Contracts

The County was contractually obligated for the following construction contract at December 31, 2006:

| <u>Project Name</u>  | <u>Estimated<br/>Completion Date</u> | <u>Contract<br/>Balance</u> |
|----------------------|--------------------------------------|-----------------------------|
| Airport construction | March 2007                           | <u>\$ 48,938</u>            |

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

**NOTE 8: 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:

| Corporation                     | Ordinance<br>Authorizing<br>Issuance | Date of<br>Issuance | Original<br>Amount of<br>Bonds Issued | Bonds<br>Outstanding<br>as of<br>December 31,<br>2006 |
|---------------------------------|--------------------------------------|---------------------|---------------------------------------|---|
| Aeroquip Corporation            | 93-53                                | 10/01/93            | \$ 72,000,000                         | \$ 72,000,000   |
| Baxter County Regional Hospital | 99-52                                | 05/01/99            | 79,845,000                            | 72,345,000  |
| Totals                          |                                      |                     | <u>\$ 87,045,000</u>                  | <u>\$ 79,545,000</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 9: 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.

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.

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

**NOTE 10: 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.

**NOTE 11: Arkansas District Judge Retirement System**

System Establishment. The Arkansas General Assembly established the Arkansas District Judge Retirement System (System) beginning January 1, 2005. The executive director and the administrative staff of the Arkansas Public Employees Retirement System (PERS) are the executive director and administrative staff of the System.

A local government that had an established municipal judge and clerk retirement fund was required by state law to contribute on January 1, 2005, an amount of money to the System that represented the actuarially determined accrued liability for those judges, former judges, clerks, and former clerks who were covered by the municipal judge and clerk retirement fund on December 31, 2004. If the local municipal judge and clerk retirement fund did not have sufficient money available to pay the accrued liability on January 1, 2005, then the remaining amount of the accrued liability shall be paid on or before December 31 each year after for up to the next thirty (30) years based on a thirty-year amortization period. The benefits earned and the eligibility requirements transferred from local municipal judge and clerk retirement funds to the System.

All municipal court clerks and district court clerks who were members of a local municipal judge and clerk's retirement fund on December 31, 2004, are covered by the System for their service until that date, and became members of PERS on January 1, 2005. A local government employing a district court clerk on December 31, 2004, that was not a participating employer under PERS was required by state law to become a participating employer under PERS on January 1, 2005. All district judges and former district or municipal court judges not covered by PERS on December 31, 2004, are required to be covered by the System. Those covered by PERS on December 31, 2004, will continue to be covered by PERS on January 1, 2005.

Plan Description. The County contributes to the System, a cost-sharing multiple-employer defined benefit pension plan that covers all district judges elected or appointed to office unless covered by PERS and district court clerks. The System 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 District Judge Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Arkansas Public Employees Retirement System, One National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. The System is a contributory plan. Members are required by Arkansas Code to contribute 5% 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  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(Unaudited)

Schedule 1

|                    | <u>December 31,<br/>2006</u> |
|--------------------|------------------------------|
| Land and buildings | \$ 10,027,509                |
| Improvements       | 2,426,720                    |
| Equipment          | <u>9,724,733</u>             |
| Total              | <u><u>\$ 22,178,962</u></u>  |