

**Washington County, Arkansas**

**Regulatory Basis Financial Statements (Modified Cash Basis)  
and Other Reports**

**December 31, 2004**

LEGISLATIVE JOINT AUDITING COMMITTEE



WASHINGTON COUNTY, ARKANSAS  
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Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverty  
Senate Co-Vice Chair  
Rep. Sandra Prater  
House Co-Vice Chair

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the general fund, road fund, and other funds in the aggregate of Washington County, Arkansas, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards 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 opinion.

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 Washington County, Arkansas, as of December 31, 2004, 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.

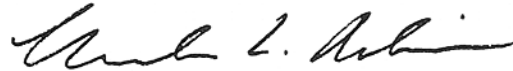
The financial statements referred to above do not disclose all the required information concerning deposits and investments, which should be included in order to conform with the regulatory basis of accounting described in Note 1(C).

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund, road fund, and other funds in the aggregate of Washington County, Arkansas, as of December 31, 2004, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and road fund for the regulatory basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2006 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Washington County, Arkansas. The supplementary information in the Schedule of Capital Assets listed in the table of contents as Schedule 1 is required by the regulatory basis of presentation and is presented for the purpose of additional analysis. We have not applied auditing procedures to this information and, accordingly, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
February 9, 2006  
LOCO07204

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

# Arkansas



Charles L. Robinson, CPA, CFE  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Washington 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 Washington County, Arkansas, as of and for the year ended December 31, 2004 and have issued our report thereon dated February 9, 2006. In our report, our opinions on the general fund, road fund, and other funds in the aggregate were qualified because required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 record, process, summarize 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 that are required to be reported under *Government Auditing Standards*.

The following issues are not reportable conditions, 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 2004:

County Judge: Jerry Hunton  
Treasurer: Roger Haney  
Sheriff: Steve Whitmill (Resigned April 30, 2004)  
Lee R. Owen (Appointed April 30, 2004)  
Tax Collector: David Ruff  
County Clerk: Karen Combs-Pritchard  
Circuit Clerk: Bette Stamps  
Assessor: Lee Ann Kizzar

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

### **I. Assessor**

As previously reported, the Assessor's office had access to the Collector's computer records, which allowed the posting of corrections to the tax books and the providing of proof of taxes paid for vehicle licensing purposes. State law requires that these functions be performed by the Collector's office.

### **II. Collector**

As previously reported, the final tax settlement was prepared on tax collections rather than as a function of the property valuation system. The final tax settlement also did not properly allocate the expenses of the Equalization Board due to the fact that reappraisal reimbursements of \$501,186 were not used to reduce the amount of corresponding reappraisal expenses.

### **III. Collector and Assessor**

During a follow-up of a computer application review of the Offices of Assessor and Collector, the following were noted:

1. As previously reported, a formal security change process was not established and weak password control parameters existed. These conditions could lead to misuse or theft of county funds in addition to inadequate segregation of duties pertaining to electronic data management.
2. As previously reported, a Disaster Recovery or Business Continuity Plan did not exist. Lack of a formal approved plan could result in the County being without computer processing for an extended time in the event of a disaster or major interruption and also could result in placing a financial and personnel burden on the resources of the County.
3. As previously reported, Application Controls were not adequate. A history of assessed values and millages was not maintained in the Collector's system, changes are allowed to the original receipt and Homestead Tax Credit data fields and data could be modified outside the application. Allowing modification of data from outside the system produces no record of that activity which could lead to fraudulent activity that is not detected in the cash reconciliation process.

#### IV. Sheriff

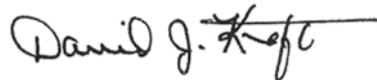
As noted in prior years, the Sheriff's copy of traffic tickets were not on file; the ticket log did not include all unissued ticket books and ticket books were not properly checked out/logged in as required by Ark. Code Ann. 16-10-207. In addition, for the second year, tickets were not properly entered on arrest reports and one instance was noted where a ticket was not processed through the local court. The foregoing resulted in a lack of control over the traffic ticket process and could result in lost revenue to the County.

#### V. Circuit Clerk

1. As previously noted, subsidiary ledger cards were not maintained and the child support and advanced cost accounts monthly ending balances were not properly identified. The omission of monthly identification resulted in unidentified balances in Advance Cost and Child Support at December 31, 2004 of \$46,712 and \$663, respectively.
2. The Circuit Clerk did not notify the Circuit Judges, in writing, of the fines or costs assessed but not collected. The Circuit Clerk did deliver a report monthly to the Prosecuting Attorney, but the report excluded totals, and the Circuit Clerk did not verify the report information. We noted one circuit case where the defendant was assessed fines and restitution and no payments have been made and no final disposition on the case was noted.

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 9, 2006

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WASHINGTON COUNTY, ARKANSAS  
 COMBINED BALANCE SHEET - REGULATORY PRESENTATION - MODIFIED CASH BASIS  
 DECEMBER 31, 2004

Exhibit A

	General	Road	Other Funds In The Aggregate
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,604,327	\$ 2,604,676	\$ 11,351,584
Escrow deposits with fiscal agent	32,000		2,628,477
<b>TOTAL ASSETS</b>	<b>\$ 16,636,327</b>	<b>\$ 2,604,676</b>	<b>\$ 13,980,061</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Settlements pending	\$ 3,627,468		\$ 3,918,302
Fund Balances:			
Reserved	1,354,592	\$ 2,604,676	10,061,759
Unreserved:			
Undesignated	11,654,267		
Total Fund Balances	13,008,859	2,604,676	10,061,759
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 16,636,327</b>	<b>\$ 2,604,676</b>	<b>\$ 13,980,061</b>

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

WASHINGTON COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 REGULATORY PRESENTATION - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 2,272,798	\$ 2,958,908	\$ 388,693
Federal aid	46,661	38,809	1,807,269
Property taxes	9,656,288	700,267	946,756
Sales taxes	3,932,477	2,621,574	13,479,748
Fines, forfeitures and costs	1,169,154		312,892
Interest	80,825	38,811	83,545
Officers' fees	532,929		1,391,620
Jail fees	765,329		
911 fees			1,066,812
Treasurer's commission	224,247		
Collector's commission	504,067		
Taxes apportioned - Assessor's salary and expense	1,226,473		
Other	1,274,657	740,909	359,480
 TOTAL RECEIPTS	 21,685,905	 7,099,278	 19,836,815
Less: Treasurer's commission	343,653	173,726	192,417
 NET RECEIPTS	 21,342,252	 6,925,552	 19,644,398
DISBURSEMENTS			
Current:			
General government	7,721,923		500,885
Law enforcement	6,522,683		6,367,515
Highways and streets		9,499,384	406,424
Public safety	1,220,013		1,528,018
Sanitation	207,798		
Health	19,628		42,127
Recreation and culture			1,158,253
Social services			36,920
Total Current	15,692,045	9,499,384	10,040,142
Capital outlay			11,076,955
Debt service:			
Bond principal			11,735,000
Bond interest and other charges			401,621
Payments to refunding escrow agent		1,554,356	
Principal reduction on note	79,395	1,642,455	
Note interest and other charges	4,742	105,901	
Payments on capital leases	111,625	754	43,650
 TOTAL DISBURSEMENTS	 15,887,807	 12,802,850	 33,297,368
 EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	 5,454,445	 (5,877,298)	 (13,652,970)

WASHINGTON COUNTY, ARKANSAS  
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 REGULATORY PRESENTATION - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit B

	General	Road	Other Funds In The Aggregate
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ 1,490,615.0	\$ 60,000.0	\$ 5,536,672
Transfers out	(2,191,439)		(4,895,848)
Insurance premiums collected	1,808,924		
Insurance claims paid	(1,375,179)		
Debt proceeds		4,140,000	
Sale of equipment		2,183,423	
	(267,079)	6,383,423	640,824
 TOTAL OTHER FINANCING SOURCES (USES)			
 EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	5,187,366	506,125	(13,012,146)
 FUND BALANCES - JANUARY 1	7,821,493	2,098,551	23,073,905
 FUND BALANCES - DECEMBER 31	\$ 13,008,859	\$ 2,604,676	\$ 10,061,759

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

WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>RECEIPTS</b>						
State aid	\$ 733,980	\$ 2,272,798	\$ 1,538,818	\$ 2,754,000	\$ 2,958,908	\$ 204,908
Federal aid	76,504	46,661	(29,843)	7,000	38,809	31,809
Property taxes	8,493,975	9,656,288	1,162,313	762,817	700,267	(62,550)
Sales taxes	3,700,000	3,932,477	232,477	2,466,700	2,621,574	154,874
Fines, forfeitures and costs	423,500	1,169,154	745,654			
Interest	40,000	80,825	40,825	25,000	38,811	13,811
Officers' fees	630,000	532,929	(97,071)			
Jail fees	725,000	765,329	40,329			
Treasurer's commission	456,008	224,247	(231,761)	90,000		(90,000)
Collector's commission	961,488	504,067	(457,421)			
Taxes apportioned - Assessor's salary and expense	1,487,714	1,226,473	(261,241)			
Other	1,749,207	1,274,657	(474,550)	1,203,976	740,909	(463,067)
<b>TOTAL RECEIPTS</b>	<b>19,477,376</b>	<b>21,685,905</b>	<b>2,208,529</b>	<b>7,309,493</b>	<b>7,099,278</b>	<b>(210,215)</b>
Less: Treasurer's commission	225,000	343,653	(118,653)	100,000	173,726	(73,726)
<b>NET RECEIPTS</b>	<b>19,252,376</b>	<b>21,342,252</b>	<b>2,089,876</b>	<b>7,209,493</b>	<b>6,925,552</b>	<b>(283,941)</b>
<b>DISBURSEMENTS</b>						
Current:						
General government	8,237,013	7,721,923	515,090			
Law enforcement	7,881,069	6,522,683	1,358,386			
Highways and streets				12,194,975	9,499,384	2,695,591
Public safety	1,341,911	1,220,013	121,898			
Sanitation	212,333	207,798	4,535			
Health	19,405	19,628	(223)			
<b>Total Current</b>	<b>17,691,731</b>	<b>15,692,045</b>	<b>1,999,686</b>	<b>12,194,975</b>	<b>9,499,384</b>	<b>2,695,591</b>

WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY PRESENTATION - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (CONTINUED)						
Debt service:						
Payments to refunding escrow agent					\$ 1,554,356	\$ (1,554,356)
Principal reduction on note		\$ 79,395	\$ (79,395)		1,642,455	(1,642,455)
Note interest and other charges		4,742	(4,742)		105,901	(105,901)
Payments on capital leases		111,625	(111,625)		754	(754)
TOTAL DISBURSEMENTS	<u>\$ 17,691,731</u>	<u>15,887,807</u>	<u>1,803,924</u>	<u>\$ 12,194,975</u>	<u>12,802,850</u>	<u>(607,875)</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>1,560,645</u>	<u>5,454,445</u>	<u>3,893,800</u>	<u>(4,985,482)</u>	<u>(5,877,298)</u>	<u>(891,816)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in		1,490,615	1,490,615		60,000	60,000
Transfers out		(2,191,439)	(2,191,439)			
Insurance premiums collected	1,419,720	1,808,924	389,204			
Insurance claims paid	(2,269,720)	(1,375,179)	894,541			
Debt proceeds				2,545,000	4,140,000	1,595,000
Sale of equipment				1,996,923	2,183,423	186,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(850,000)</u>	<u>(267,079)</u>	<u>582,921</u>	<u>4,541,923</u>	<u>6,383,423</u>	<u>1,841,500</u>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	710,645	5,187,366	4,476,721	(443,559)	506,125	949,684
FUND BALANCES - JANUARY 1	<u>3,461,036</u>	<u>7,821,493</u>	<u>4,360,457</u>	<u>1,500,000</u>	<u>2,098,551</u>	<u>598,551</u>
FUND BALANCES - DECEMBER 31	<u>\$ 4,171,681</u>	<u>\$ 13,008,859</u>	<u>\$ 8,837,178</u>	<u>\$ 1,056,441</u>	<u>\$ 2,604,676</u>	<u>\$ 1,548,235</u>

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

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**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. The County maintains its records on a modified cash basis of accounting, as discussed in Note 1.C. This regulatory basis of presentation and modified basis of accounting differ 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 receipts, disbursements, and changes in fund 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 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, Treasurer, Collector, Assessor, Central Supply, Sales Tax, Animal Protection, Drug-Buy and Blue Cross/Blue Shield Employee Self Insurance.

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: 9-1-1, HIV Clinic, Recorder's Cost, Jail Operations Sales Tax, Sheriff's Communication, Juvenile Council Fee, Support Collection Cost, Treasurer's Automation, Law Enforcement Grants, Victims Assistance Program, Drug Court, Rural Community Grants, Community Care Foundation Grants, Collector's Automation, County Clerk's Recorder/Automation Cost, Court Automation, Fire Marshal Grant, Prosecuting Attorney Gun Violence Grant, Weapons of Mass Destruction, Office of Emergency Services Grants, Homeland Security, Community Emergency Response Team, Federal Emergency Management Assistance and Library.

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 Facility Capital Project 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: Jail Facility Bond Fund and Juvenile Detention Complex Bond Payment Fund.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

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

**B. Basis of Presentation – Regulatory Fund Accounting (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: County Treasurer's accounts (Law Library, Flex Spending, Environmental Protection Agency Wetland Project, Timberland, Unclaimed Property, Hazmat, School Accounts, City Accounts and Evansville Water), Tax Collector's accounts (Current Tax and Escrow), Sheriff's accounts (Fee, Felony Bond and Fine and Execution), County Judge's account (Juvenile Detention Center), County Clerk's accounts (Fee and Trust) and Circuit Clerk's accounts (Fee, Advanced Cost, Child Support, Circuit Fines and Cost Adult and Circuit Fines and Cost Juvenile.)

**C. Basis of Accounting**

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, fund balance, receipts, and disbursements when they result from cash transactions with a provision for settlements pending. The basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets (such as accounts receivable, interfund receivables, and capital assets) and their related receipts and certain liabilities (such as accounts payable, interfund payables, and long-term debt) and their related disbursements are not recorded in these financial statements.

**D. Assets, Liabilities and Fund Balances**

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit and treasury bills.

Liabilities

For the purpose of financial reporting, liabilities include settlements pending. Settlements pending are considered fees, fines, forfeitures, costs, and property taxes that have not been transferred to the appropriate entities.

Equity Classification

Fund Balance

1. Reserved Fund Balance indicates that portion of fund balance which has been legally segregated for specific purposes.
2. Undesignated Fund Balance indicates that portion of fund balance which is available for budgeting in future periods.

**E. Property Taxes**

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

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**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 modified cash basis for the General Fund, Road Fund and the other Special Revenue Funds.

**NOTE 2: Cash**

Custodial credit risk information for deposits relating to whether deposits are insured or secured with collateral has not been provided.

**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, 2004, the legal debt limit for the County was \$179,534,778. There were no property tax secured bond issues.

**NOTE 5: Federal Funds Program Compliance**

A separate report was issued for the Washington County, Arkansas federal programs for 2004. No material instances of noncompliance were reported in the aforementioned report. We noted \$32,392 was received for the National School Lunch Program and this money was not included in the federal compliance report.



WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 6: Reserved Fund Balance**

Reserved fund balance consists of the following:

	December 31, 2004
<u>General Fund</u>	
Blue Cross/Blue Shield Employee Self Insurance Fund	\$ 1,354,592
	\$ 2,604,676
<u>Road</u>	
<u>Other Funds in the Aggregate</u>	
Special Revenue:	
9-1-1	\$ 26,906
HIV Clinic	12,736
Recorder's Cost	2,421,961
Jail Operations Sales Tax	2,341,347
Sheriff's Communication	321,775
Juvenile Council Fee	2,358
Support Collection Cost	432
Treasurer's Automation	5,090
Law Enforcement Grants	172,755
Victims Assistance Program	18,435
Drug Court	68,377
Rural Community Grants	4,823
Community Care Foundation Grants	8,620
Collector's Automation	131,271
County Clerk's Recorder/Automation Cost	228,375
Court Automation	33,158
Fire Marshal Grant	47,742
Prosecuting Attorney Gun Violence Grant	7,274
Weapons of Mass Destruction	11,856
Office of Emergency Services Grants	13,113
Homeland Security	92,867
Community Emergency Response Team	3,100
Federal Emergency Management Assistance	292,860
Library	563,150
Total Special Revenue	6,830,381
Capital Projects:	
Jail Facility Capital Project Fund	2,228,652
Debt Service:	
Juvenile Detention Complex Bond Payment Fund	495,937
Jail Facility Bond Fund	506,789
Total Debt Service	1,002,726
Total Other Funds in the Aggregate	\$ 10,061,759

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 7: Commitments**

Total commitments consist of the following at December 31, 2004:

	December 31, 2004
Long-term debt	\$ 4,983,571
Noncancellable capital leases	383,453
Construction contracts	1,607,039
Professional services contract	2,815,073
<b>TOTAL COMMITMENTS</b>	<b>\$ 9,789,136</b>

Long-Term Debt

Long-Term Debt at December 31, 2004 is comprised of the following:

	December 31, 2004
<u>Capital Improvement Bonds Payable</u>	
County Ordinance No. 03-29 approved the issuance of Washington County, Arkansas - Capital Improvement Refunding Revenue Bonds (Juvenile Detention Center Project), Series 2003, in the amount of \$2,465,000, bearing interest at 1.35% - 3.6% per annum, with scheduled maturities on August 1st in each of the years 2004 through 2014.	\$ 2,270,000
<u>General Revenue Promissory Notes Payable</u>	
County Ordinance No. 04-12 approved the issuance of Washington County, Arkansas - General Revenue Promissory Notes (Refunding and Road Equipment Project), Series 2004A and 2004B, in the amount of \$1,595,000 and \$2,245,000, respectively. Series 2004A matured on November 1, 2004. Series 2004B bears interest at 1.25% - 2.6% per annum, with scheduled maturities on April 1st in each of the years 2005 through 2009.	2,245,000
County Ordinance No. 03-31 authorized the issuance and sale of General Revenue Promissory Notes (Road Department Land Purchase), Series 2003, for the purchase of land in the amount of \$125,000, bearing interest at 3.65% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until June 26, 2008.	90,137
County Ordinance No. 03-14 authorized the issuance and sale of General Revenue Promissory Notes (Sheriff Patrol Vehicle Project), Series 2003, for the purchase of sheriff patrol vehicles in the amount of \$240,000, bearing interest at 3.25% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until April 11, 2006.	102,322
County Ordinance No. 04-20 authorized the issuance and sale of General Revenue Promissory Notes (Dump Truck Project), Series 2004, for the purchase of road equipment in the amount of \$300,000, bearing interest at 3.24% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until July 15, 2007.	276,112
Total General Revenue Promissory Notes Payable	2,713,571
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 4,983,571</b>

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

WASHINGTON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2004

**NOTE 7: Commitments (Continued)**

Issuance of Long-Term Debt for Refunding Notes

On April 1, 2004, the County issued \$1,595,000 and \$2,245,000 in General Revenue Promissory Notes (Refunding and Road Equipment Project), Series 2004A and 2004B, respectively, dated April 1, 2004. Series 2004A with interest rate of 1.05% per annum was used to refund \$1,525,000 of outstanding General Revenue Promissory Notes (Road Equipment Project), Series 2001, dated May 1, 2001, with interest rates of 3.4% - 3.85% per annum. The proceeds from the 2004A and 2004B issue plus other funds were deposited into an irrevocable trust with an escrow agent (First Security Bank of Searcy, Arkansas) to provide for the debt service payments on the 2001 Series Notes and new road equipment. As a result, the 2001 Series Notes are considered to be defeased and the liability for these notes has been removed from the general long-term debt group.

Issuance of long-term debt for the Road Notes Series 2004A and 2004B

Note proceed sources and uses are as follows:

SOURCES	
Sale of notes	\$ 3,840,000
Accrued interest	<u>1,017</u>
<b>TOTAL SOURCES</b>	<b><u>\$ 3,841,017</u></b>
USES	
Legal council fee	\$ 16,250
Original issue discount	44,160
Trust fee	3,500
Closing costs	2,676
Funds remitted to debt service fund	1,017
Funds remitted to escrow agent	1,554,356
Fund remitted to county road fund	<u>2,219,058</u>
<b>TOTAL USES</b>	<b><u>\$ 3,841,017</u></b>

Compensated Absences

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

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 7: Commitments (Continued)**

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

<u>Years Ending December 31,</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2005	\$ 268,288	\$ 693,206	\$ 961,494
2006	270,110	628,122	898,232
2007	266,330	583,302	849,632
2008	266,710	486,420	753,130
2009	266,335	471,045	737,380
2010 through 2014	1,336,850		1,336,850
Total Obligations	<u>2,674,623</u>	<u>2,862,095</u>	<u>5,536,718</u>
Less Interest	<u>(404,623)</u>	<u>(148,524)</u>	<u>(553,147)</u>
Total Principal	<u>\$ 2,270,000</u>	<u>\$ 2,713,571</u>	<u>\$ 4,983,571</u>

Noncancellable Capital Leases

The County entered into noncancellable capital lease agreements for copiers. At the end of the lease term, the copiers remain the property of the lessor. The County has not recognized the leases as capital in nature and therefore has not posted the equipment to their fixed asset listing and has not prepared amortization schedules to identify principal and interest payments. The County is obligated for the following amounts for the next five years:

<u>Year</u>	<u>Amount</u>
2005	\$ 154,680
2006	130,250
2007	64,953
2008	25,289
2009	8,281
Total	<u>\$ 383,453</u>

Rental disbursements for 2004 were \$156,029.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 7: Commitments (Continued)**

Construction Contracts

The County was contractually obligated for the following contracts relating to the construction of the County Jail Facility at December 31, 2004:

Contractor	Contract Date	Contract Amount	Contract Balance at December 31, 2004
Sprit Architecture Group, LLC	10/29/2001	\$ 1,249,088	\$ 11,469
Smith-Doyle Contractors, Inc.	10/9/2001	2,480,718	578,654
Sunset Development, Inc.	11/30/2004	652,991	48,077
West Memphis Fence & Construction, Inc.	2/25/2003	176,223	17,908
Second Nature Landscapes, Inc.	2/25/2003	39,482	798
SSI Incorporated of Northwest Arkansas	1/27/2003	3,357,233	169,567
Prestressed Casting Company - Design & Fabrication	2/4/2003	1,310,576	65,997
Prestressed Casting Company - Unload and Erection	2/4/2003	335,907	17,524
NWA Steel Erectors, Inc.	2/4/2003	710,133	37,898
Franklin & Son, Inc.	2/25/2003	347,053	35,412
Crum & Marshall Waterproofing, Inc.	2/25/2003	112,771	11,277
National Specialties Contractor, Inc.	2/25/2003	402,910	41,736
Miller Commercial Flooring, Inc.	8/5/2003	62,284	7,583
Geels Paint & Wallcovering, Inc.	2/25/2003	531,930	30,504
NBMC, Inc.	2/25/2003	68,067	6,807
ISI Detention Contracting Group, Inc.	2/6/2003	1,191,881	60,046
Malone's Mechanical, Inc.	1/27/2003	1,046,364	54,489
Fire Pro, Inc.	2/3/2003	380,661	19,598
Multi-Craft Contractors, Inc.	1/31/2003	1,618,880	162,048
Gigerich Electrical, Inc.	1/23/2003	1,696,784	91,742
Cornerstone Detention Products, Inc.	2/6/2003	703,007	71,205
SSI Incorporated of Northwest Arkansas - Work Release - Phase III	9/9/2003	1,242,859	62,625
Little Rock Tile & Marble, Inc.	2/24/2004	40,750	4,075
Total			<u>\$ 1,607,039</u>

Professional Services Contract

The County entered into a professional services contract for \$2,876,400 with Arkansas CAMA Technology for real estate appraisal and reappraisal maintenance on December 8, 2004. Terms of the contract were two (2) payments during 2004 for \$68,142 each. The remainder of the contract will be paid in thirty-four (34) installments of approximately \$80,592 each. The County is obligated for the following amounts for the next three years:

<u>Year</u>	<u>Amount</u>
2005	\$ 1,042,056
2006	967,100
2007	<u>805,917</u>
Total	<u>\$ 2,815,073</u>

**NOTE 8: Subsequent Events**

During 2005, the County entered into ten (10) different construction contracts with various vendors for the completion of Pod B at the new Jail Facility. The project is estimated to cost \$1,422,642.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 8: Subsequent Events (Continued)**

The County, as lessee, Northwest Arkansas Radiation Therapy Institute, as sub-lessee, and Banc Of America Leasing and Capital, the lessor, entered into a Master Equipment Lease and Sublease Agreement in the amount not to exceed \$4,000,000 dated November 28, 2005 for the purpose of funding the acquisition and installation of medical equipment and other related medical facilities in Washington County for the use and benefit of Northwest Arkansas Radiation Therapy Institute. The obligations are not considered to be general obligations of the County, but shall be special obligations payable solely from revenues received pursuant to the lease agreement.

County Ordinance No. 2005-34, adopted July 14, 2005, authorized the issuance of \$115,000,000 in revenue bonds to provide funding to Washington Regional Medical Center for health care facilities. The bonds are not considered general obligations of the County, but shall be special and limited obligations secured solely by revenues and assets of Washington Regional Medical Center and the Medical Center.

**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; however the County does have tort immunity Arkansas Code Annotated §21-9-301. 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 except that according to the County Attorney, the County has elected to not maintain any insurance coverage for the loss of the County's airplane (which is used by and large for prisoner transport) and does not carry any bodily or property damage liability coverage relating to the pilots (County Employees) or passengers (prisoners) as it is his understanding the pilots are covered under the Worker's Compensation policy and the passengers are entitled to only medically necessary treatment which will may be paid from County Funds or State Funds. According to the County Attorney, the County has owned an airplane for several years and there have been no claims for property damage, workers' compensation or medical bills for prisoners. According to the County Attorney, the County also transports prisoners by vehicle and over the years there have been several claims for property damage, workers' compensation and prisoners and other third party medical bills. The County is required by law to carry minimal liability coverage on its vehicles and has immunity for any losses over and above said amount. The County Attorney has recommended at the very least that the County obtain property insurance on the airplane.

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

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

Vehicle Program

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

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 9: 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 may participate in the Secondary Loss Fund that provides additional coverage.

The County also participates in the Self-Insured Fidelity Bond Program administered by the Governmental Bonding Board. This program covers actual losses sustained by the participating entity through any fraudulent or dishonest act or acts committed by any of the officials or employees, acting alone or in collusion with others, during the bond period to an amount not exceeding the lesser of \$300,000 or the amount of the bond. Premiums for coverage are determined by the State Risk Manager and approved by the Board. These premiums are paid by the State Treasurer from funds withheld from the County Aid Fund. There is a \$1,000 deductible per occurrence.

**NOTE 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: Self-Insured Benefits**

The County provides an insurance benefits plan for employees on a self-insured basis. BlueAdvantage Administrators of Arkansas are currently the third-party Administrator which provides claims administration/adjudication services for a set monthly fee based on the number of covered employees. As of December 31, 2004, the balance in the account was \$1,354,592 and is reflected in the financial statements as the General Fund's reserved fund balance. To safeguard against catastrophic claims expenses, the County also maintains a reinsurance policy with SAFECO, which will fund individual claims that exceed \$100,000 per occurrence.

WASHINGTON COUNTY, ARKANSAS  
OTHER SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Unaudited)

Schedule 1

	<u>December 31, 2004</u>
Land	\$ 3,401,269
Buildings and improvements	45,518,572
Equipment	<u>17,539,464</u>
Total	<u>\$ 66,459,305</u>