

Washington County, Arkansas

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

December 31, 2002

LEGISLATIVE JOINT AUDITING COMMITTEE



WASHINGTON COUNTY, ARKANSAS
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

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

FINANCIAL STATEMENTS

	<u>Exhibit</u>
Combined Balance Sheet – Governmental and Fiduciary Fund Types, Account Groups and Discretely Presented Component Unit – Modified Cash Basis	A
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types and Discretely Presented Component Unit – Modified Cash Basis	B
Notes to Financial Statements	

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from modified cash transactions of Washington County, Arkansas, as of December 31, 2002, and the revenues and expenditures for the year then ended on the modified cash basis of accounting described in Note 1(C), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2004 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
February 18, 2004
LOCO07202

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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of Washington County, Arkansas, as of and for the year ended December 31, 2002 and have issued our report thereon dated February 18, 2004. In our report, our opinion was qualified because of the effects on the financial statements of not including the required information concerning compensated absences in the financial statements. Also, the required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

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

Other Management Issues

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

County Judge: Jerry Hunton
Treasurer: Roger Haney
Sheriff: Steve Whitmill
Tax Collector: David Ruff
County Clerk: Marilyn Edwards
Circuit Clerk: Bette Stamps
Assessor: Sue Phillips

Our audit procedures indicated that the offices of **Treasurer, Sheriff, County Clerk** and **Circuit Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the offices of **County Judge, Tax Collector** and **Assessor** and are cited below:

I. County Judge

The County issued a sales and use tax capital improvement bond of \$22,200,000 for the purpose of acquiring, constructing and equipping an integrated county facility comprised of a jail, courtroom, sheriff's offices, dispatch center, impounded property building and related facilities. As trustee, the Bank of the Ozarks maintained accounts for the corresponding capital project and debt service funds. The County did not maintain records to recap the activity of those accounts held in trust for the Washington County Sales and Use Tax Capital Improvement Bonds – Series 2002; therefore, \$26,669,422 of financial activity was excluded from the County's financial statements.

II. Sheriff

Unaccounted for Funds

During the course of our audit of the Washington County Sheriff, for the period January 1, 2002 through December 31, 2002, the Washington County Sheriff reported, and we verified, a shortage of \$2,760 in cash bonds, occurring during the period of May 24 through May 27, 2002. The Sheriff's investigative report was inconclusive as to the identity of the thief. The Sheriff's office referred the shortage to the Arkansas State Police for investigation.

Our findings in this matter are being reported in accordance with Ark. Code Ann. 10-4-111 and 21-2-708.

III. Collector

The delinquent lists were not totaled and could not be compared to the delinquent tax recaps utilized for the final tax settlement. The recap of changes used for the final tax settlement was not documented which precluded determining that the tax settlements were proper.

IV. Assessor

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. Proper segregation of duties requires that these functions be performed by the Collector's office.

V. Collector and Assessor

The **Assessor** did not provide the **Collector** with documentation of property valuation to support the original tax charge, therefore the final tax settlement was not prepared as a function of net tax charge, which resulted in the inability to recalculate tax dollars distributed as a function of the property valuation system.

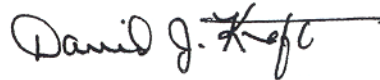
V. Collector and Assessor (Continued)

During a computer application review of the offices of **Assessor and Collector**, the following reportable audit findings were noted:

1. 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. Data integrity controls were inadequate in that the programmer was granted the highest level of update access on the production application data. Sound Information Systems Controls dictate that permissions granting data update access should not be assigned to the same individual with program logic update ability. Functions and access privileges should be separated.
3. 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.
4. 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.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, state executive and oversight management, County management, the federal awarding agencies and pass-through entities, if applicable and is not intended to be and should not be used by anyone other than these specified parties.

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
February 18, 2004

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

Exhibit A

	Governmental Fund Types				Fiduciary Fund Type Agency	Account Groups		Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long- Term Debt	Primary		Reporting
								Government		Entity
							December 31, 2002	December 31, 2002		
ASSETS AND OTHER DEBITS										
Cash and cash equivalents	\$ 7,136,970	\$ 5,217,000	\$ 281,593		\$ 6,177,598		\$ 18,813,161	\$ 1,276,794	\$ 20,089,955	
Interfund receivables	127,699	101,647					229,346		229,346	
Escrow deposits with fiscal agent			2,578,170	\$ 20,288,619			22,866,789		22,866,789	
Due from component units	29,910						29,910		29,910	
Due from primary government								86	86	
Land						\$ 2,097,514	2,097,514		2,097,514	
Buildings and improvements						24,981,321	24,981,321	159,468	25,140,789	
Equipment						14,898,376	14,898,376	226,196	15,124,572	
Construction in progress						2,221,610	2,221,610		2,221,610	
Amount to be provided for retirement of notes payable								\$ 164,111	164,111	
Amount to be provided for retirement of capital improvement revenue bonds								20,770,237	20,770,237	
Amount to be provided for retirement of general revenue promissory notes payable								1,675,000	1,675,000	
Amount available in debt service fund								2,859,763	2,859,763	
TOTAL ASSETS AND OTHER DEBITS	\$ 7,294,579	\$ 5,318,647	\$ 2,859,763	\$ 20,288,619	\$ 6,177,598	\$ 44,198,821	\$ 25,469,111	\$ 111,607,138	\$ 1,662,544	\$ 113,269,682
LIABILITIES AND FUND EQUITY										
Liabilities:										
Accounts payable	\$ 545,323	\$ 439,022		\$ 237,080			\$ 1,221,425	\$ 2,978	\$ 1,224,403	
Bonds, fines and costs pending					\$ 687,705		687,705		687,705	
Settlement pending	2,965,518				162,632		3,128,150		3,128,150	
Due to other agencies					5,327,261		5,327,261		5,327,261	
Interfund payables	101,647	127,699					229,346		229,346	
Due to component units	86						86		86	
Due to primary government								29,910	29,910	
Notes payable							\$ 164,111	164,111	164,111	
Capital improvement revenue bonds payable							23,630,000	23,630,000	23,630,000	
General revenue promissory notes payable							1,675,000	1,675,000	1,675,000	
Total Liabilities	3,612,574	566,721		237,080	6,177,598		25,469,111	36,063,084	32,888	36,095,972

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

Exhibit A

	Governmental Fund Types				Fiduciary Fund Type Agency	Account Groups		Totals (Memorandum Only)	Component Unit	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		General Fixed Assets	General Long- Term Debt	Primary Government	County Library Board	Reporting Entity
								December 31, 2002		December 31, 2002
LIABILITIES AND FUND EQUITY (Continued)										
Fund Equity:										
Investment in general fixed assets						\$ 44,198,821	\$ 44,198,821	\$ 385,664	\$ 44,584,485	
Fund balances:										
Reserved:										
Capital projects				\$ 20,051,539			20,051,539		20,051,539	
Debt service			\$ 2,859,763				2,859,763		2,859,763	
Unreserved:										
Designated	\$ 1,639						1,639		1,639	
Undesignated	3,680,366	\$ 4,751,926					8,432,292	1,243,992	9,676,284	
Total Fund Equity	<u>3,682,005</u>	<u>4,751,926</u>	<u>2,859,763</u>	<u>20,051,539</u>		<u>44,198,821</u>	<u>75,544,054</u>	<u>1,629,656</u>	<u>77,173,710</u>	
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 7,294,579</u>	<u>\$ 5,318,647</u>	<u>\$ 2,859,763</u>	<u>\$ 20,288,619</u>	<u>\$ 6,177,598</u>	<u>\$ 44,198,821</u>	<u>\$ 25,469,111</u>	<u>\$ 111,607,138</u>	<u>\$ 1,662,544</u>	<u>\$ 113,269,682</u>

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

WASHINGTON COUNTY, ARKANSAS

Exhibit B

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

	Governmental Fund Types				Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government Year Ended December 31, 2002		Reporting Entity Year Ended December 31, 2002
REVENUES							
Intergovernmental revenues - state	\$ 2,089,558	\$ 3,039,995			\$ 5,129,553	\$ 227,450	\$ 5,357,003
Intergovernmental revenues - federal	41,412	500,874			542,286		542,286
Property taxes	8,523,596	568,717			9,092,313	1,401,902	10,494,215
Sales taxes	3,845,148	1,839,524	\$ 4,396,273		10,080,945		10,080,945
Fines, forfeitures and costs	970,860		309,192		1,280,052		1,280,052
Investment income	37,820	77,765	7,598	\$ 5,783	128,966	17,995	146,961
Officer's fees	365,958	1,199,494			1,565,452		1,565,452
Jail fees	807,022				807,022		807,022
Emergency 911 fees		1,216,726			1,216,726		1,216,726
Treasurer's commission	193,903				193,903		193,903
Collector's commission	504,359				504,359		504,359
Taxes apportioned - Assessor's salary and expense	1,090,784				1,090,784		1,090,784
Other	1,041,613	850,495	4,674		1,896,782	67,739	1,964,521
TOTAL REVENUES	19,512,033	9,293,590	4,717,737	5,783	33,529,143	1,715,086	35,244,229
Less: Treasurer's commission	354,789	165,288	6,230		526,307	31,646	557,953
NET REVENUES	19,157,244	9,128,302	4,711,507	5,783	33,002,836	1,683,440	34,686,276

WASHINGTON COUNTY, ARKANSAS

Exhibit B

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

	Governmental Fund Types				Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government Year Ended December 31, 2002		Reporting Entity Year Ended December 31, 2002
EXPENDITURES							
Current:							
General government	\$ 6,531,588	\$ 639,843			\$ 7,171,431		\$ 7,171,431
Law enforcement	9,092,458	589,595			9,682,053		9,682,053
Highways and streets		5,624,151			5,624,151		5,624,151
Public safety	880,075	1,239,456			2,119,531		2,119,531
Sanitation	140,845				140,845		140,845
Health	12,333	91,808			104,141		104,141
Social services		24,355			24,355		24,355
Library						\$ 1,675,725	1,675,725
Total Current	<u>16,657,299</u>	<u>8,209,208</u>			<u>24,866,507</u>	<u>1,675,725</u>	<u>26,542,232</u>
Capital outlay				\$ 2,221,611	2,221,611		2,221,611
Debt service:							
Bond principal			\$ 1,150,000		1,150,000		1,150,000
Bond interest and fiscal charges			549,393		549,393		549,393
Principal reduction on capital lease	156,796	145,000			301,796		301,796
Interest imputed on capital lease	11,404	67,703			79,107		79,107
TOTAL EXPENDITURES	<u>16,825,499</u>	<u>8,421,911</u>	<u>1,699,393</u>	<u>2,221,611</u>	<u>29,168,414</u>	<u>1,675,725</u>	<u>30,844,139</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,331,745</u>	<u>706,391</u>	<u>3,012,114</u>	<u>(2,215,828)</u>	<u>3,834,422</u>	<u>7,715</u>	<u>3,842,137</u>

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

Exhibit B

	Governmental Fund Types				Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Primary Government Year Ended December 31, 2002		Reporting Entity Year Ended December 31, 2002
OTHER FINANCING SOURCES (USES)							
Transfers in	\$ 303,137	\$ 454,387			\$ 757,524		\$ 757,524
Transfers out	(449,387)	(308,137)			(757,524)		(757,524)
Transfers from component unit	89,269				89,269		89,269
Transfers to primary government						\$ (89,269)	(89,269)
Bond issuance cost			\$ (556,638)		(556,638)		(556,638)
Bond proceeds				\$ 22,267,367	22,267,367		22,267,367
TOTAL OTHER FINANCING SOURCES (USES)	(56,981)	146,250	(556,638)	22,267,367	21,799,998	(89,269)	21,710,729
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	2,274,764	852,641	2,455,476	20,051,539	25,634,420	(81,554)	25,552,866
FUND BALANCES - JANUARY 1, AS RESTATED	1,407,195	3,899,331	404,287		5,710,813	1,325,546	7,036,359
Residual equity transfer in	46				46		46
Residual equity transfer out		(46)			(46)		(46)
FUND BALANCES - DECEMBER 31	\$ 3,682,005	\$ 4,751,926	\$ 2,859,763	\$ 20,051,539	\$ 31,345,233	\$ 1,243,992	\$ 32,589,225

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

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

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

Discretely presented component unit

Washington County Library Board – The Library receives a one (1) mill property tax on both real estate and personal property, which is collected by the County. The County Library Board is authorized to receive gifts, bequests and/or devices to be used in accordance with Ark. Code Ann. 13-2-404.

Complete financial information may be obtained from the Washington County Comptroller and the County Treasurer at the courthouse.

Related Organizations Excluded from the Reporting Entity

Related organizations are entities for which the County is accountable because it appoints a voting majority of the Board but is not financially accountable. They are as follows: The Rural Development Authority of Washington County.

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

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

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

Fiduciary Funds

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Account Groups

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

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

C. Basis of Accounting

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

D. Fixed Assets – Primary Government

1. General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets excluding infrastructure assets are capitalized at cost in the general fixed assets group of accounts. Gifts or contributions or general fixed assets purchased at nominal sums are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Infrastructure assets, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other elements of public domain are not reported in the general fixed assets group of accounts. Such assets are immovable and of value only to the County. No depreciation has been provided on general fixed assets. Interest incurred during construction is not capitalized.
2. Fixed Assets – Component Unit - Upon the 1999 dissolution of the Ozarks Regional Library, the Washington County Library Board received seventy percent of the dissolved organization's assets. Assets have been included as component unit fixed assets based on a combination of historical and estimated costs. Fixed assets purchased through the County claim process are capitalized at the time of purchase. Such assets are capitalized at cost in the component unit investment in the general fixed assets account group.

E. Property Taxes

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

F. Investments

Certificates of deposit are reported at cost.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Equity

Fund Balance -

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

H. Budgetary Controls

1. Legal Requirements

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

2. Accounting

The County prepared an annual budget on the modified cash basis for the General Fund and all the Special Revenue Funds. Formal budgetary policies are not employed for the Fiduciary Fund Types, the Capital Projects Fund and the Debt Service Funds.

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

Fund	Budgeted Revenues and Other Sources	Actual Revenues and Other Sources	Excess	Appropriations	Actual Expenditures and Other Uses	Excess
General	\$ 17,775,621	\$ 19,549,650	\$ 1,774,029	\$ 17,468,203	\$ 17,274,886	\$ 193,317
Special Revenue:						
Road	\$ 5,350,973	\$ 6,070,040	\$ 719,067	\$ 6,034,310	\$ 5,952,898	\$ 81,412
Sheriff Communications	158,200	159,047	847	246,780	58,388	188,392
9-1-1 Fund	1,183,500	1,339,880	156,380	1,457,203	1,384,724	72,479
Recorder's Cost	695,000	970,168	275,168	424,033	544,118	(120,085)
Law Enforcement Grants	195,519	295,278	99,759	410,000	290,407	119,593
HIV Clinic	54,000	9,962	(44,038)	95,293	91,808	3,485
Juvenile Counsel Fees		40	40			
Support Collection Cost	41,000	32,128	(8,872)	27,644	27,639	5

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Budgetary Controls (Continued)

2. Accounting (Continued)

Fund	Budgeted Revenues and Other Sources	Actual Revenues and Other Sources	Excess	Appropriations	Actual Expenditures and Other Uses	Excess
Special Revenue: (Continued)						
Treasurer's Automation	\$ 6,500	\$ 5,434	\$ (1,066)	\$ 9,000	\$ 6,305	\$ 2,695
County Clerk's Recorder Cost		119,723	119,723			
Court Automation		11,595	11,595			
Collector's Automation	78,407	124,527	46,120	70,566	61,781	8,785
Victim's Assistance Program	77,772	47,553	(30,219)	77,772	73,225	4,547
Drug Court	128,338	171,072	42,734	128,338	126,305	2,033
Rural Community Grants	26,860	27,306	446	40,606	33,015	7,591
Fire Marshall Grant	41,000	83,181	42,181	41,000	38,165	2,835
Prosecuting Attorney						
Gun Violence Grant	41,396	65,357	23,961	41,396	41,270	126
Community Care Grant		50,352	50,352			
Thoroughcare / Juvenile Grant		12	12			
Community Partnership Grant		35	35			
Total Special Revenue	\$ 8,078,465	\$ 9,582,690	\$1,504,225	\$ 9,103,941	\$ 8,730,048	\$ 373,893

I. Cash Equivalents

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

NOTE 2: Memorandum Totals

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

NOTE 3: Public Fund Deposits and Investments

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

(A) Information disclosing whether deposits are:

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

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

NOTE 3: Public Fund Deposits and Investments (Continued)

(B) Information disclosing whether investments are:

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

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

NOTE 4: Legal or Contractual Provisions for Deposits and Investments

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

NOTE 5: Fund Presentation

The General Fund heading as it appears in the financial statements includes the following accounts: County General, Treasurer, Collector, Assessor, Central Supply, Sales Tax, Animal Protection and Drug-Buy.

The Special Revenue Fund heading as it appears in the financial statements includes the following funds: County Road, Sheriff's Communication, 9-1-1, Recorder's Cost, Law Enforcement Grants, H-I-V Clinic, Juvenile Counsel Fees, Support Collection Cost, Treasurer's Automation, County Clerk's Recorder Cost, Court Automation, Collector's Automation, Victims' Assistance Program, Drug Court, Rural Community Grants, Fire Marshall Grant, Prosecuting Attorney Gun Violence Grant, Community Care Foundation Grants, Juvenile Grant and Community Partnership Grant.

NOTE 6: Interfund Balances

Individual fund interfund receivable and payable balances are as follows:

Fund	December 31, 2002	
	Interfund Receivables	Interfund Payables
General Fund	\$ 127,699	\$ 101,647
Special Revenue Funds:		
Road		119,986
Sheriff's Communication	77	
9-1-1	101,523	
Community Partnership Grant	26	
Treasurer's Automation	21	
Recorder's Cost		7,713
Totals	\$ 229,346	\$ 229,346

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

NOTE 7: Changes in General Fixed Assets

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Land	\$ 2,097,514			\$ 2,097,514
Buildings	24,981,321			24,981,321
Equipment	14,091,384	\$ 1,005,672	\$ 198,680	14,898,376
Construction in progress		2,221,610		2,221,610
Totals	\$ 41,170,219	\$ 3,227,282	\$ 198,680	\$ 44,198,821

NOTE 8: Changes in Component Unit Fixed Assets

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Buildings	\$ 159,468			\$ 159,468
Equipment	224,106	\$ 2,090		226,196
Totals	\$ 383,574	\$ 2,090	\$ 0	\$ 385,664

NOTE 9: Compensated Absences

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

NOTE 10: Long-Term Debt

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

	December 31, 2002
Capital Improvements Bonds Payable	
County Ordinance No. 99-28 authorized an issue of bonds designated "Washington County, Arkansas Capital Improvement Revenue Bonds (Juvenile Detention Center Project), Series 1999" in the amount of \$2,850,000, bearing interest at 4% - 5.20% per annum, with scheduled maturities on August 1st in each of the years 2000 through 2014.	\$ 2,430,000
County Ordinance No. 02-12 approved the issuance of Washington County, Arkansas - Sales and Use Tax Capital Improvement Bonds, Series 2002, which was subsequently issued in the amount of \$22,200,000 for the purpose of acquiring, constructing and equipping an integrated county facility comprised of a jail, courtroom, sheriff's offices, dispatch center, impounded property building and related facilities.	21,200,000
Total Capital Improvements Bonds Payable	23,630,000

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

NOTE 10: Long-Term Debt (Continued)

	<u>December 31, 2002</u>
General Revenue Promissory Note Payable	
County Ordinance No. 01-14 authorized the issuance and sale of General Revenue Promissory Notes (Road Equipment Project), Series 2001 for the purchase of road equipment in the amount of \$1,820,000, bearing interest at 3.4% - 3.850% per annum, with scheduled maturities on May 1, 2002 and 2003, with a balloon payment on May 1, 2004.	<u>\$ 1,675,000</u>
Notes Payable	
County Ordinance No. 01-13 approved a closed end line of credit, pursuant to Amendment Seventy-Eight Financing for law enforcement vehicles in the amount of \$234,963, bearing interest at 4.95% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until December 31, 2003.	91,828
County Ordinance No. 01-3 approved a closed end line of credit, pursuant to Amendment Seventy-Eight financing for general equipment of \$141,737, bearing interest at 4.00% per annum, with accrued interest paid monthly on the outstanding principal balance until December 31, 2001, at which time principal and interest payment shall be paid on a monthly basis until December 31, 2003.	<u>72,283</u>
Total Notes Payable	<u>164,111</u>
Total Long-Term Debt	<u><u>\$ 25,469,111</u></u>

NOTE 11: Changes in General Long-Term Debt

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

	<u>2002</u>
General Long-Term Debt at January 1	\$ 4,720,908
Additions:	
Sales and Use Tax Capital Improvement Bonds	22,200,000
Deletions:	
Bonds retired for Juvenile Detention Center	(150,000)
Note payments for road equipment	(145,000)
Note payments for law enforcement vehicles	(87,343)
Note payments for general equipment	(69,454)
Bonds retired early for jail facility	<u>(1,000,000)</u>
General Long-Term Debt at December 31	<u><u>\$ 25,469,111</u></u>

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

NOTE 12: Debt Service Requirements to Maturity – Bonded Debt

Annual requirements to amortize outstanding bonded debt are as follows:

CAPITOL IMPROVEMENT BONDS

Juvenile Detention Center Revenue Bonds

Years Ending December 31,	December 31, 2002		
	Principal	Interest	Total
2003	\$ 155,000	\$ 120,155	\$ 275,155
2004	160,000	113,335	273,335
2005	170,000	106,135	276,135
2006	175,000	98,315	273,315
2007	185,000	90,090	275,090
2008 through 2014	1,585,000	343,490	1,928,490
Sub totals	2,430,000	871,520	3,301,520

Sales and Use Tax Capital Improvement Bonds for Jail

Years Ending December 31,	Principal	Interest	Total
2003	3,600,000	647,400	4,247,400
2004	4,440,000	526,800	4,966,800
2005		460,200	460,200.00
2006		460,200	460,200.00
2007	13,160,000	230,100	13,390,100
Sub totals	21,200,000	2,324,700 *	23,524,700
Total Capital Improvement Bonds	23,630,000	3,196,220	26,826,220

GENERAL REVENUE NOTES

Capital Improvement Notes for Road Equipment

Years Ending December 31,	Principal	Interest	Total
2003	150,000	61,413	211,413
2004	1,525,000	29,356	1,554,356
Total General Revenue Notes	1,675,000	90,769	1,765,769

Years Ending
December 31,

Note Payable for Law Enforcement Vehicles

2003	91,828	2,513	94,341
------	--------	-------	--------

Note Payable for General Equipment

2003	72,283	1,576	73,859
------	--------	-------	--------

Grand Totals	\$ 25,469,111	\$ 3,291,078	\$ 28,760,189
--------------	---------------	--------------	---------------

* \$1 million dollars of Sales and Use Tax Capital Improvement bonds were called early in reversed order on December 1, 2002. The \$1 million dollars called early has been adjusted from principal, but the interest schedule has not been adjusted for the change.

The reserve in the Debt Service Funds is \$2,859,763 as of December 31, 2002.

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

NOTE 13: Legal Debt Limit - Tax Secured Bond Issues

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2002, the legal debt limit for the County was \$158,224,808. There were no property tax secured bond issues.

NOTE 14: Federal Funds Program Compliance

A separate report was issued for the Washington County, Arkansas federal programs for 2002. No material instances of noncompliance were reported in the aforementioned report.

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

NOTE 15: Commitments

The County entered into a professional services contract for \$2,400,000 with Arkansas CAMA Technology for real estate appraisal and reappraisal maintenance on August 17, 2001. Terms of the contract were two payments during 2001 for \$41,592 each. The remainder of the contract will be paid in thirty-four installments of approximately \$68,142 each with retainage paid at year-end.

The County is obligated for the following amounts for the next two years:

<u>Year</u>	<u>Amount</u>
2003	\$ 831,333
2004	<u>681,411</u>
Total	<u>\$ 1,512,744</u>

The County was also contractually obligated for the following contracts relating to the construction of the County Jail Facility at December 31, 2002:

<u>Contractor</u>	<u>Outstanding Balance at December 31, 2002</u>
Spirit Architecture	\$ 252,940
Smith Doyle Contractors	2,149,609
Sunset Development, Inc.	75,856
Kinco Constructors, LLC	<u>60,227</u>
Total	<u>\$2,538,632</u>

NOTE 16: Self-Insured Health Benefit

Washington County entered into a retention and liability agreement with Arkansas Blue Cross and Blue Shield, a mutual insurance company, for the calendar year 2002. The intent of this agreement is for Arkansas Blue Cross and Blue Shield to provide health benefits for covered Washington County employees. Washington County will pay the cost of health claims to Blue Cross and Blue Shield, plus an administrative fee, which is 14.8% of paid health claims and 11.7% of paid dental claims. The maximum liability is \$1,488,879 based on current variables. The large claim pool is \$100,000 per covered person per policy year with an additional 6.9% administrative fee for the large claim pool expenditures. Therefore, Blue Cross and Blue Shield has effectively agreed to not bill the County for paid claims in excess of \$100,000 per covered person per policy year.

NOTE 17: Subsequent Events

A. Bonds Called Early

On June 1, 2003, \$3,425,000 of Sales and Use Tax Capital Improvement Bonds – Series 2002 were called early for redemption, and an additional \$2,635,000 of Sales and Use Tax Capital Improvement Bonds – Series were called early for redemption in December 2003.

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

NOTE 17: Subsequent Events (Continued)

B. Revenue Bond Issue

Resolution No. 2002-2, adopted January 10, 2002, authorized the issuance of \$300,000,000 of revenue bonds for securing and developing industry within Washington County. As of the end of audit fieldwork, the revenue bonds have not been issued but continue to be conceptualized as the planning stage continues. These bonds would be retired by a lease-rental plan with Genova Arkansas I. The bonds would be special obligation bonds of the County and would not constitute an indebtedness of the County within any Constitutional or statutory limitation, but would be payable solely from lease-rentals of certain properties and would be secured by a statutory mortgage lien of the same. The County has hereby waived the payment of property taxes by Genova Arkansas for ten years and has authorized payment in lieu of taxes.

C. Jail Complex Construction

To date the County has expended \$11,070,941 for the construction of an integrated county facility comprised of a jail, courtroom, sheriff's offices, dispatch center, impounded property building and related facilities. The estimated completion date of the jail complex is November 30, 2004 and a projected cost of \$22,067,219.

D. Bond Issue

The County is in the process of issuance and sale of General Revenue Promissory Notes (Road Equipment Project) Series 2004 for the purchase of road equipment in the amount of \$2,245,000. A secondary note for \$1,595,000 will be issued to make the final balloon payment on the existing General Revenue Promissory Note (Road Equipment Project) Series 2001; that note is scheduled for repayment on November 1, 2004.

E. Amendment Seventy-Eight Financing

During 2003, the County financed the purchase of twelve Sheriff vehicles through First Security Bank for \$240,000.

F. Capital Improvement Refunding

County Ordinance #2003-29 authorized an issue of bonds designated "Washington County Capital Improvement Refunding Revenue Bonds (Juvenile Detention Center Project), Series 2003" in the amount of \$2,465,000, bearing interest at 1.350% - 3.60% per annum, with scheduled maturities on August 1 in each of the years 2004 through 2014.

NOTE 18: 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.

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

NOTE 18: Risk Management (Continued)

Vehicle Program –

A. Liability - This program may pay all sums the county legally must pay as damages because of bodily injury, death or property damage to which this agreement applies involving a covered county vehicle and for which the county is liable. The limit of payment by the program is \$25,000 for bodily injury per person, \$50,000 for bodily injury per accident and \$25,000 for property damage per accident. The county shall pay into the program each year a charge established annually by the Risk Management Fund Board for covered county vehicles owned or leased by the county.

B. Physical Damage – This program covers vehicles (excluding mobile equipment) which are the property of the participating county. Property is valued at the full cost to repair or replace the property after deduction for depreciation. Loss amounts payable will be reduced by the deductible amount of \$500 per occurrence. The county agrees to pay into the program each year a service charge established annually by the Risk Management Fund Board for covered property.

General Liability Program – The program shall provide legal defense in civil rights suits against the county government of a participating county and pay judgments imposed on county officials and employees and the county government and county-formed boards and commissions. Coverage is limited to \$350,000 per case with an annual aggregate of \$350,000. The county agrees to pay into the program each year a charge of 60 cents per capita. Each county also agrees to pay the first \$2,000 of the aggregate cost for all expenses on each lawsuit. The County 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 19: 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. The current employer rate is 10% of annual covered payroll. The County's contributions to PERS for the years ending December 31, 2002, 2001 and 2000 were \$1,029,862, \$823,500 and \$674,495, respectively, equal to the required contributions for each year.