

**Washington County, Arkansas**

**Basic Financial Statements (Modified Cash Basis),  
Supplementary Information and Other Reports**

**December 31, 2003**

LEGISLATIVE JOINT AUDITING COMMITTEE

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Senate Co-Chair  
Rep. Tommy G. Roebuck  
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Sen. Randy Laverly  
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 governmental activities, the aggregate discretely presented component unit, each major governmental fund, and the aggregate remaining fund information of Washington County, Arkansas, as of and for the year ended December 31, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described 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 county's financial statements 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).

In our opinion, except for the effects of not disclosing all required information concerning deposits and investments, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the aggregate discretely presented component units, each major governmental fund, and the aggregate remaining fund information of Washington County, Arkansas, as of and for the year ended December 31, 2003, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1(C).

As described in Note 1(B), the County has adopted a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2005 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.

The required supplementary information, as listed in the accompanying table of contents, including Management's Discussion and Analysis, and the General and Road Funds Budgetary Comparison Schedules and Notes is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The supplementary information in the Schedule of Fixed Assets listed in the table of contents is presented for the purpose of additional analysis, but it is neither a required part of the financial statements nor supplementary information required by the Governmental Accounting Standards Board. We have not applied auditing procedures to this information and, accordingly, express no opinion on the Schedule of Fixed Assets.

DIVISION OF LEGISLATIVE AUDIT



Charles L. Robinson, CPA, CFE  
Legislative Auditor

Little Rock, Arkansas  
March 2, 2005  
LOCO07203

Sen. Henry "Hank" Wilkins, IV  
Senate Co-Chair  
Rep. Tommy G. Roebuck  
House Co-Chair  
Sen. Randy Laverly  
Senate Co-Vice Chair  
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# 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, 2003 and have issued our report thereon dated March 2, 2005. In our report, our opinions on governmental activities, the aggregate discretely presented component unit, each major governmental fund, and aggregate remaining fund information were qualified because required disclosures were not made concerning deposits. 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.

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 below relating to inadequate segregation of duties to be a material weakness.

All county officials, as specified in the Other Management Issues section of this report, had inadequate control over receipting, depositing, disbursing, and recording cash transactions because of insufficient segregation of duties. Inadequate segregation of duties could result in a misappropriation of assets, which could have a material effect on the financial statements.

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

## Other Management Issues

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 2003:

County Judge: Jerry Hunton  
Treasurer: Roger Haney  
Sheriff: Steve Whitmill  
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, Sheriff, County Clerk** and **Circuit Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and generally accepted accounting practices were noted in the offices of **Tax Collector** and **Assessor** 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 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. 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. The final tax settlement also did not properly allocate the expenses of the Equalization Board. Reappraisal reimbursements of \$501,186 were not used to reduce the amount of corresponding reappraisal expenses, and Equalization board expenses were overstated by \$117,236.

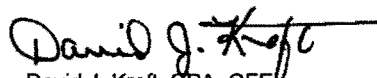
### **III. Collector and Assessor**

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.

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  
March 2, 2005

RECEIVED

JERRY HUNTON  
County Judge 05 JUL 18 PM 12:25



BOYD DARLING  
Comptroller

DIVISION OF  
LEGISLATIVE AUDIT

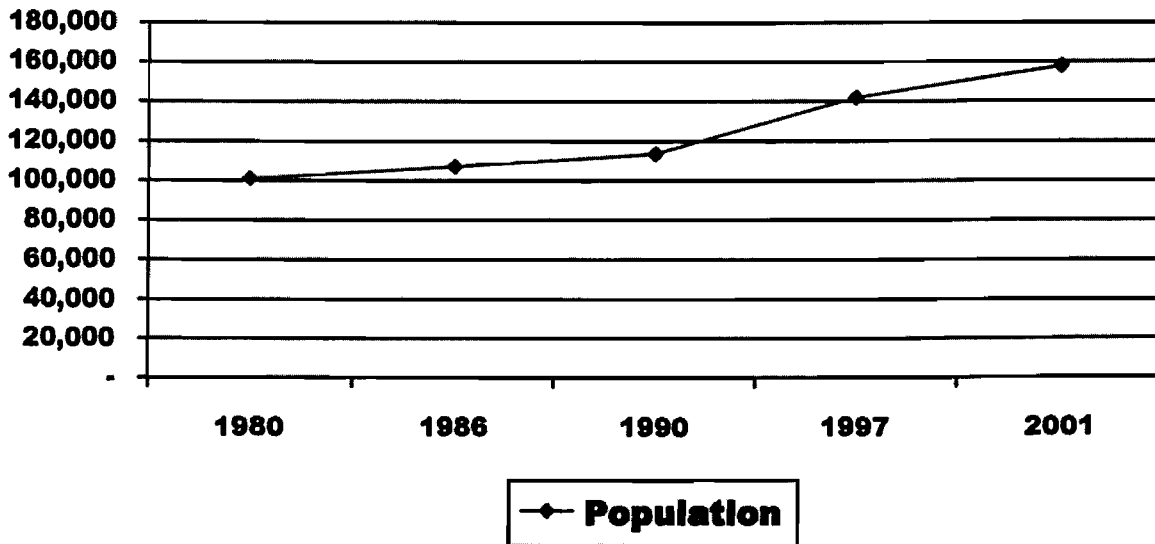
WASHINGTON COUNTY, ARKANSAS  
Comptroller's Office

## Management's Discussion and Analysis Fiscal Year Ending 12-31-2003

As managers of Washington County, Arkansas, (County) we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Washington County government for the fiscal year ended December 31, 2003.

### County Overview

Washington County, Arkansas was formed in 1828 and is located in Northwest Arkansas. Washington County is the second largest county in the state, not only in population, but also in square miles. With the 2000 population of 157,715, Washington County covers 957 square miles of hill and pastureland as well as streams, lakes, and national forests. It lies on the southwestern flank of the Ozark Highland. The southeastern half of the County is on the Boston Mountains Plateau capped by sandstone, with elevations to near 2000 feet. The northwestern section, which lies on the Springdale Plateau, is under laid by cherty limestone with elevations at approximately 1200 feet. Because of the natural beauty and moderate climate, the County is one of the fastest growing areas in the United States.



Amendment 55 to the Arkansas Constitution changed the structure and authority of county government. This amendment, which became effective January 1, 1977, grants home rule to the counties and designates the Quorum Court as the legislative body for the County. Washington County is divided into 13 single-member Quorum Court districts with "as nearly as practicable an equal number of constituents". The electors of each district elect a Justice of the Peace (JP) to represent them on the Quorum Court. The Quorum Court has general legislative authority allowing it to "adopt ordinances necessary for the government of the County."

In addition to the JP's, there are eight other elected county officials. Primary administrative responsibilities rest with the County Judge who, not only presides over the Quorum Court, but is also charged with implementing and administering any ordinances, which the Quorum Court may pass. The County Judge is also responsible for county roads, county property and for solid waste management. Record keeping is the responsibility of the Circuit Clerk and the County Clerk. Tax assessment, collection and care of tax monies are the responsibilities of the Assessor, Collector and Treasurer respectively. The Sheriff is the principal peace officer who makes arrests, acts as bailiff of courts, and administers the county jail. The Coroner holds inquests on deaths of questionable causes and is not a full-time official.

The major revenue sources for the County include, but are not limited to, ad valorem taxes, sales tax, fees, fines, licenses, and charges for services rendered. The County also receives monies from the State and Federal governments in the form of turn-back, prisoner care reimbursements and grants.

The County provides a full range of services. These services include administration of justice, public safety, human services, environmental protection, planning and general administration. This report includes all of the activities in maintaining these services.

The information provided in the County Overview should allow the readers to have an understanding of the County's financial impact due to the tremendous growth in Washington County.

#### Financial Overview

The government-wide financial statements are designed to provide readers with an overview of the County's financial position, in a similar manner to that of a private business. This report consists of a series of financial statements. The *Statement of Net Assets* shows information on all of the County's assets and liabilities with the difference between the two reported as *Net Assets*. For purposes of this report, Washington County operates under a modified cash basis of accounting.

The *Statement of Activities* presents information on how the County's net assets have changed during the current year. Revenues received and expenses paid by the County, both operating and non-operating, and any other extraordinary revenues, expenses, gains and losses are reported. This statement reports these activities by detailing the various functions within the County.

These two statements provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Governmental activities are generally financed through taxes, intergovernmental receipts, other non-exchange receipts and finance most of the County's basic services, such as law enforcement, administration and public works. Debt Service shows the principal, interest and fiscal charges on all of the County's long-term debt. The County has no Business-type activities. The County has one component unit, which is the County Library Board. The County Library Board is an administrative board of the County and property taxes are designated to fund its activities. The County Library Board is included in the above two statements.

For year ended December 31, 2003, net assets changed as follows:

	Primary Government	Component Unit
Beginning Net Assets	\$33,231,931	\$1,276,793
Increase/Decrease in Net Assets	(\$819,250)	(\$695,525)
Ending Net Assets	\$32,412,681	\$581,268



Net Assets include restricted and unrestricted assets. Below is a breakdown of the Primary Government and Component Unit's restricted and unrestricted net assets:

	Primary Government	Component Unit
<b>Net Assets</b>		
<b>Restricted</b>		
Debt Service	\$4,990,136	\$0
Other Purposes	\$19,985,842	\$0
<b>Unrestricted</b>	<u>\$7,436,903</u>	<u>\$581,268</u>
<b>Total Net Assets</b>	<b>\$32,412,681</b>	<b>\$581,268</b>

The *Balance Sheet-Governmental Funds* and the *Statement of Receipts, Disbursements, and Changes in Fund Balances – Governmental Funds* break down the county in five broad categories. These include General Government, Road Fund, Jail Facility Debt Service Fund, Jail Facility Capital Project Fund and Other Governmental Funds. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, receipts, disbursements of that individual governmental fund are at least 10% of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, receipts, disbursements of the individual governmental funds are at least 5% of the corresponding total for all governmental funds combined.

The funds of the County included in the financial statements are described as:

**General Fund** – the General Fund is the primary operating fund and is used to account for all financial resources, except those funds required to be accounted for as special revenue funds. It is always classified as a major fund.

**Road Fund** – The Road Fund is a Special Revenue Fund whose primary purpose is to finance the building and maintenance of the roads in the unincorporated areas of the County. It is always classified as a major fund.

**Jail Facility Debt Service** – The Jail Facility Debt Service Fund shows the activities, resources, and the payment of long-term debt related to the construction of the Washington County Jail.

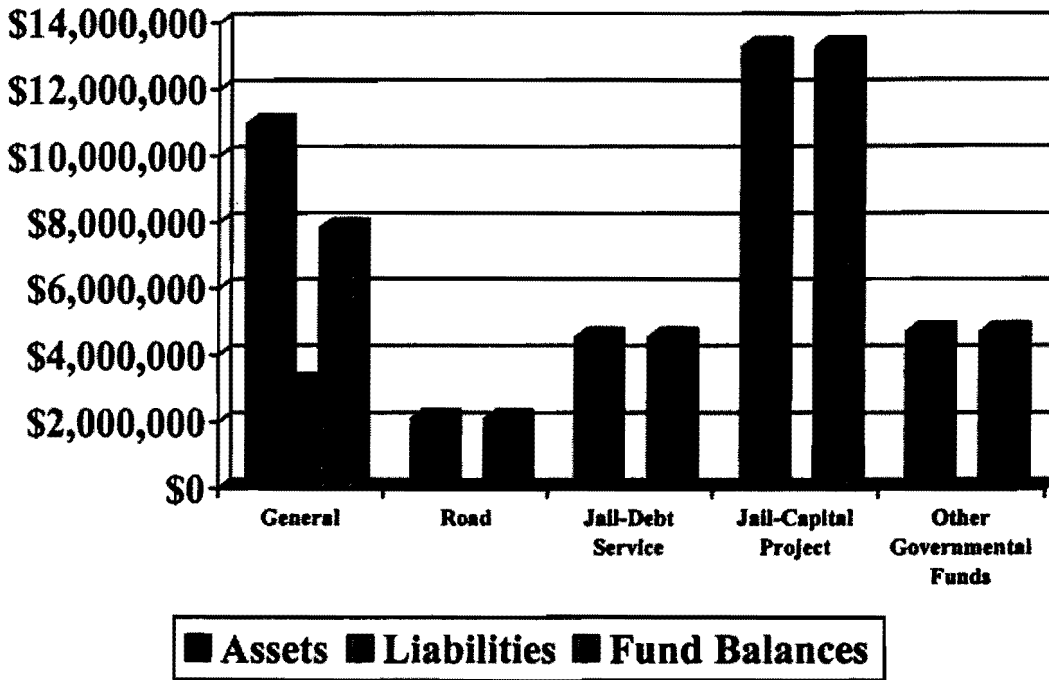
**Jail Facility Capital Project** – The Jail Facility Capital Project Fund shows the activities related to the construction of the Washington County Jail.

**Other Governmental Funds** – The Other Governmental Funds include all activities, resources and payments related to other funds which have not been designated by the County as major funds or do not meet the above criteria to be classified as a major fund. These funds are reported in the notes to financial statements under the heading of Special Revenue Funds except for the Road, which is designated by the County as a major fund.

The Balance sheet breaks down Assets, Liabilities and Fund Balance by major fund as follows:

	General	Road	Jail Facility Debt Service	Jail Facility Capital Project	Other Governmental Funds	Total Governmental Funds
<b>Total Assets</b>	\$10,972,987	\$2,098,551	\$4,524,477	\$13,278,004	\$4,690,156	\$35,564,175
<b>Total Liabilities</b>	\$3,151,494	\$0	\$0	\$0	\$0	\$3,151,494
<b>Total Fund Balances</b>	\$7,821,493	\$2,098,551	\$4,524,477	\$13,278,004	\$4,690,156	\$32,412,681

## Analysis of Balances and Transactions of Individual Funds



The above chart and the table shown on the previous page, which summarizes the balance sheet, show the changes to fund balances. These changes have a tremendous impact on future finances of Washington County. The better the fund balance, the more available to budget the following year.

For year ended December 31, 2003, fund balances for governmental funds changed as follows:

	General	Road	Jail Facility Debt Service	Jail Facility Construction Project	Other Governmental Funds	Total
Beginning Fund Balance	\$4,777,749	\$1,909,111	\$2,509,285	\$20,288,619	\$3,747,167	\$33,231,931
Increase/Decrease in Fund Balance	\$3,043,744	\$189,440	\$2,015,192	(\$7,010,615)	\$942,989	(\$819,250)
Ending Fund Balance	\$7,821,493	\$2,098,551	\$4,524,477	\$13,278,004	\$4,690,156	\$32,412,681

The *Statement of Fiduciary Net Assets – Fiduciary Funds* are agency funds used to account for assets held by the County as an agent for individuals, private organizations, or other governmental units, and other funds.

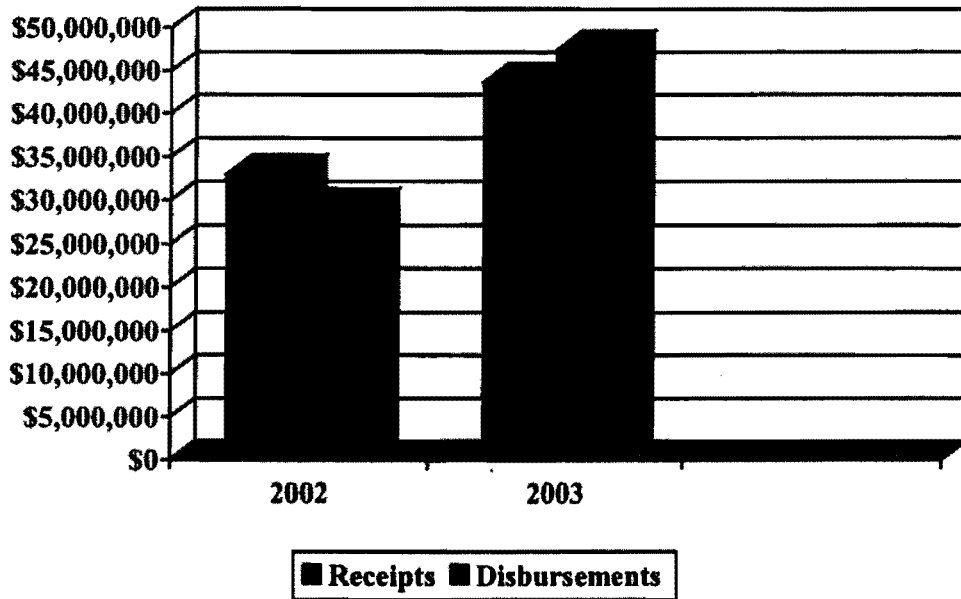
During 2003, the following events affected the County's financial position:

- A. 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 were called early for redemption in December 2003. These bonds were for the construction of the new Adult Detention and Sheriff's Office Complex.
- B. Total Construction costs for the Adult Detention and Sheriff's Office Complex totaled \$7,046,817 during 2003. Completion of the project was slated for November 30, 2004 with a total project cost slated at just over \$22,000,000.
- C. The County financed the purchase of twelve Sheriff vehicles through First Security Bank for \$240,000.

D. The County re-financed the Series 1999 bond issue, which was for the construction of a Juvenile Justice Complex, in order to take advantage of the lower interest rates. This refunding was in the amount of \$2,465,000, bearing interest at 1.350% - 3.60% per annum, with scheduled maturities on August 1 of each of the years 2004 through 2014.

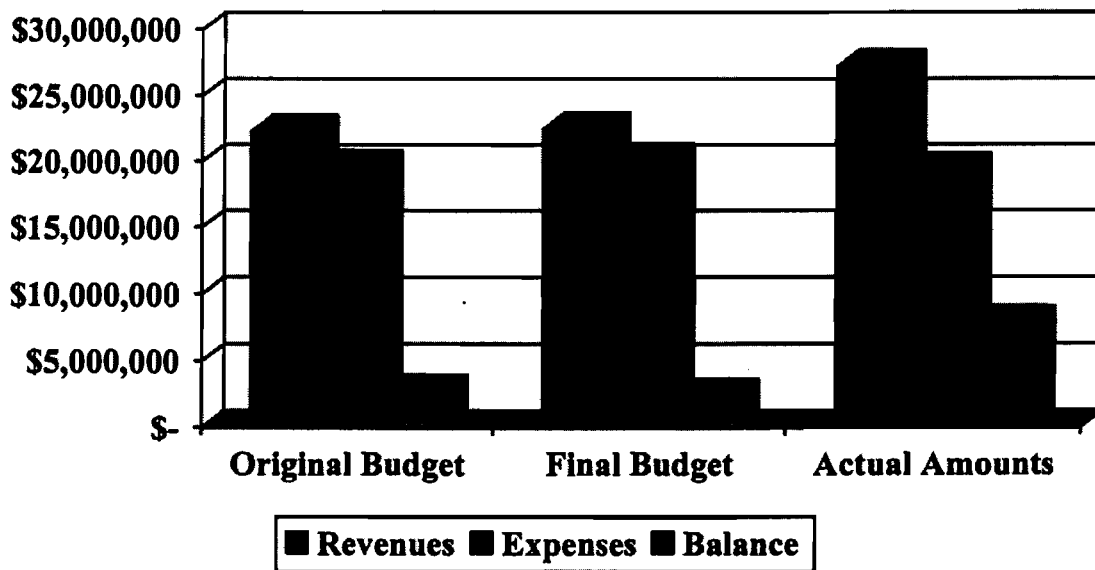
Below is a graph which compares 2002 to 2003 in both revenues and expenditures:

### Comparison of Current Year to Prior Year



As is evident by the graphs, Washington County receipts increased by only 32% whereas disbursements increased by 63%. The increase in receipts was due primarily to a voter approved ¼ cent sales tax levy for a bond issue for a new county jail and a voter approved ¼ cent sales tax levy for jail maintenance and operation, partially offset by decreased federal aid. The increase in disbursements was due primarily to construction costs on a new county jail and increased debt service principal, interest and fiscal charges payments and Public Safety disbursements.

## Variations between Original and Final Budget and Actual Budget Amounts General Fund



The Washington County Budget is adopted each year prior to December 31 for the following year. Budget revisions, as required by State Law, can be made during any of the regular Quorum Court meetings held on a monthly basis throughout the year. During 2003, the budget was revised on several occasions. The above chart reflects those changes, as well as variations to the final budgeted revenues and expenditures within the General Fund. As the chart shows, revenues were projected to come in at \$22,488,011, after all budget revisions. The actual revenues were \$27,165,999. This is an increase in revenues of \$4,677,988. Expenditures were budgeted at \$20,101,916 after all budget revisions. Actual expenditures were \$19,344,506. This left a balance of \$757,410. Between the increase in revenues and decrease in expenses, the budgetary fund balance was increased by \$3,920,578 in the General Fund.

### Capital Assets and Long Term Debt

The major changes to capital assets during 2003 include part of the construction of the new Washington County Jail and Sheriff's Offices. Construction started on this complex in 2002 and was scheduled for completion December 2004. Other changes to assets include, but are not limited to the purchase of land for the road department in the amount of \$125,000 and the purchase of sheriff patrol vehicles in the amount of \$240,000.


Washington County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for purpose of real and personal property as determined by the last tax assessment. At December 31, 2003, the legal debt limit for the County was \$165,381,385. There were no property tax secured bonds issued. Washington County had at that time long-term debt in the amount of \$16,259,329. This debt comprised of the following:

	Principal Balance as of December 31, 2003
<b>Capital Improvement Bonds</b>	
\$22,200,000 Bond Issue for building & equipping new jail and sheriff's offices	\$11,540,000
Refunding Revenue Bond for the Juvenile Detention Center	<u>\$2,465,000</u>
Total Capital Improvement Bonds	\$14,005,000
<b>General Revenue Promissory Notes Payable</b>	
Series 2001 Road Equipment Bond	\$1,525,000
General Promissory Note for purchase of land for the Road Department	\$113,704
General Promissory Notes for purchase of Sheriff's Vehicles	<u>\$181,717</u>
Total Notes Payable	\$1,820,421
<b>Compensated Absences</b>	<u>\$433,908</u>
Total Long Term Debt	<u><u>\$16,259,329</u></u>

In order to conform to GASB 34, Washington County has been working on a fixed asset management system in order to account for Capital Assets and Infrastructure. The largest changes are shown in the graph, which is titled *Analysis of Balances and Transactions of Individual Funds*. This graph shows the Jail Debt Service Fund as well as the Jail Capital Projects Fund. The Debt Service is the largest long-term debt that Washington County currently has outstanding. This debt was to build a new criminal justice complex, which is to house the Washington County Sheriff's Offices and Detention Center. This \$22,000,000 project is to be completed late 2004 with an expected move date around March of 2005. The citizens of Washington County approved two ¼ cent sales and use taxes, one for the repayment of the bond issue, which will be retired when the bonds are paid in full. The other sales tax issue is for an ongoing maintenance and operations of the Jail. Management hopes to have the bonds paid off prior to completing the construction of the complex.

Washington County is developing an accounting for its infrastructure. GASB 34 requires that all new construction of infrastructure, which includes roads and bridges, shall be added to the asset management system as of 2003. Current infrastructure shall be implemented January 1, 2007. At that time all values will be listed in our fixed assets reporting system for Washington County.

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of Washington County's finances and to show the County's accountability for the money it receives. If you should have any questions about this report or require additional information, contact the Comptroller or the County Judge.

  
 \_\_\_\_\_  
 Jerry Hunton  
 Washington County Judge

  
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 Boyd J Darling  
 Washington County Comptroller

WASHINGTON COUNTY, ARKANSAS  
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 DECEMBER 31, 2003

Exhibit A

	<u>Primary Government Governmental Activities</u>	<u>Component Unit County Library Board</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 21,857,266	\$ 581,268
Escrow deposits with fiscal agent	13,706,909	
<b>TOTAL ASSETS</b>	<b>\$ 35,564,175</b>	<b>\$ 581,268</b>
<b>LIABILITIES</b>		
Liabilities:		
Settlements pending	\$ 3,151,494	
<b>NET ASSETS</b>		
Restricted:		
Debt service	\$ 4,990,136	
Other purposes	20,302,538	
Unrestricted	7,120,007	\$ 581,268
<b>TOTAL NET ASSETS</b>	<b>\$ 32,412,681</b>	<b>\$ 581,268</b>

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

WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
DECEMBER 31, 2003

Exhibit B

Functions/Programs	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governer Governmental Activities	Component Unit County Library Board
<b>Primary Government:</b>						
<b>Governmental activities:</b>						
General government	\$ 7,635,251	\$ 3,232,250	\$ 31,558		\$ (4,371,443)	
Public safety	20,240,535	3,887,844	306,936	\$ 1,355,682	(14,690,073)	
Roads and public works	6,244,518	293,586			(5,950,932)	
Health and welfare	262,906				(262,906)	
Community development	5,750				(5,750)	
<b>Debt service:</b>						
Principal, interest and fiscal charges	10,961,869				(10,961,869)	
Payments to refunding bond escrow agent	2,580,035				(2,580,035)	
<b>Total government</b>	<b>\$ 47,930,864</b>	<b>\$ 7,413,680</b>	<b>\$ 338,494</b>	<b>\$ 1,355,682</b>	<b>(38,823,008)</b>	
<b>Component Unit:</b>						
County Library Board	\$ 1,813,776					\$ (1,813,776)
<b>General revenues:</b>						
<b>Taxes:</b>						
Property taxes					9,459,882	907,131
Franchise taxes					85,538	
Sales taxes					18,252,558	
State and federal aid					4,686,006	175,422
Interest					151,646	7,400
Other miscellaneous					2,538,128	28,298
Debt proceeds					2,830,000	
		<b>Total general revenues and transfers</b>			<b>38,003,758</b>	<b>1,118,251</b>
		<b>Change in net assets</b>			<b>(819,250)</b>	<b>(695,525)</b>
	<b>Net assets - beginning</b>				<b>33,231,931</b>	<b>1,276,793</b>
	<b>Net assets - ending</b>				<b>\$ 32,412,681</b>	<b>\$ 581,268</b>

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

WASHINGTON COUNTY, ARKANSAS  
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
DECEMBER 31, 2003

Exhibit C

	General	Road	Jail Facility Debt Service	Jail Facility Capital Project	Other Governmental Funds	Totals Governmental Funds December 31, 2003
<b>ASSETS</b>						
Cash and cash equivalents	\$ 10,940,987	\$ 2,098,551	\$ 4,524,477		\$ 4,293,251	\$ 21,857,266
Escrow deposits with fiscal agent	32,000			\$ 13,278,004	396,905	13,706,909
<b>TOTAL ASSETS</b>	<b>\$ 10,972,987</b>	<b>\$ 2,098,551</b>	<b>\$ 4,524,477</b>	<b>\$ 13,278,004</b>	<b>\$ 4,690,156</b>	<b>\$ 35,564,175</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Settlements pending	\$ 3,151,494					\$ 3,151,494
<b>Fund balances:</b>						
<b>Reserved for:</b>						
Debt service			\$ 4,524,477		\$ 465,659	4,990,136
Other purposes	704,323					704,323
<b>Unreserved, reported in:</b>						
General fund	7,117,170					7,117,170
Special revenue funds		\$ 2,098,551			4,224,497	6,323,048
Capital project funds				\$ 13,278,004		13,278,004
<b>Total Fund Balances</b>	<b>7,821,493</b>	<b>2,098,551</b>	<b>4,524,477</b>	<b>13,278,004</b>	<b>4,690,156</b>	<b>32,412,681</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 10,972,987</b>	<b>\$ 2,098,551</b>	<b>\$ 4,524,477</b>	<b>\$ 13,278,004</b>	<b>\$ 4,690,156</b>	<b>\$ 35,564,175</b>

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



WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	General	Road	Jail Facility Debt Service	Jail Facility Capital Project	Other Governmental Funds	Totals December 31, 2003
<b>RECEIPTS</b>						
State aid	\$ 2,036,944	\$ 2,677,462			\$ 43,124	\$ 4,757,530
Federal aid	73,238	31,558			1,517,856	1,622,652
Property taxes	8,812,819	647,063				9,459,882
Franchise taxes	85,538					85,538
Sales taxes	3,641,382	2,330,096	\$ 12,281,080			18,252,558
Fines, forfeitures, and costs	980,631				292,534	1,273,165
Interest	56,160	19,214		\$ 36,202	40,070	151,646
Officers' fees	436,934				1,371,593	1,808,527
Jail fees	1,074,139					1,074,139
911 fees					1,281,492	1,281,492
Treasurer's commission	195,816					195,816
Collector's commission	453,972					453,972
Taxes apportioned - Assessor's salary and expense	1,024,183					1,024,183
Other	1,388,556	951,682	87,268		313,784	2,741,290
<b>TOTAL RECEIPTS</b>	<b>20,260,312</b>	<b>6,657,075</b>	<b>12,368,348</b>	<b>36,202</b>	<b>4,860,453</b>	<b>44,182,390</b>
Less: Treasurer's commission	314,178	122,026			63,226	499,430
<b>NET RECEIPTS</b>	<b>19,946,134</b>	<b>6,535,049</b>	<b>12,368,348</b>	<b>36,202</b>	<b>4,797,227</b>	<b>43,682,960</b>
<b>DISBURSEMENTS</b>						
Current:						
General government	6,483,793				652,028	7,135,821
Public safety	10,583,355				2,994,560	13,577,915
Roads and public works		6,244,518				6,244,518
Health and welfare	194,471				68,435	262,906
Community development					5,750	5,750
Total Current	17,261,619	6,244,518			3,720,773	27,226,910

WASHINGTON COUNTY, ARKANSAS  
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2003

Exhibit D

	<u>General</u>	<u>Road</u>	<u>Jail Facility Debt Service</u>	<u>Jail Facility Capital Project</u>	<u>Other Governmental Funds</u>	<u>Totals December 31, 2003</u>
DISBURSEMENTS (Continued)						
Capital outlay				\$ 6,662,620		\$ 6,662,620
Debt service:						
Principal, interest and fiscal charges	\$ 230,997	\$ 226,091	\$ 10,353,156		\$ 151,625	10,961,869
Payments to refunding bond escrow agent					2,580,035	2,580,035
<b>TOTAL DISBURSEMENTS</b>	<u>17,492,616</u>	<u>6,470,609</u>	<u>10,353,156</u>	<u>6,662,620</u>	<u>6,452,433</u>	<u>47,431,434</u>
<b>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</b>	<u>2,453,518</u>	<u>64,440</u>	<u>2,015,192</u>	<u>(6,626,418)</u>	<u>(1,655,206)</u>	<u>(3,748,474)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	507,062				640,257	1,147,319
Transfers out	(256,060)			(384,197)	(507,062)	(1,147,319)
Insurance premiums collected	1,695,054					1,695,054
Insurance claims paid	(1,595,830)					(1,595,830)
Debt proceeds	240,000	125,000			2,465,000	2,830,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>590,226</u>	<u>125,000</u>		<u>(384,197)</u>	<u>2,598,195</u>	<u>2,929,224</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,043,744	189,440	2,015,192	(7,010,615)	942,989	(819,250)
<b>FUND BALANCES - JANUARY 1</b>	<u>4,777,749</u>	<u>1,909,111</u>	<u>2,509,285</u>	<u>20,288,619</u>	<u>3,747,167</u>	<u>33,231,931</u>
<b>FUND BALANCES - DECEMBER 31</b>	<u>\$ 7,821,493</u>	<u>\$ 2,098,551</u>	<u>\$ 4,524,477</u>	<u>\$ 13,278,004</u>	<u>\$ 4,690,156</u>	<u>\$ 32,412,681</u>

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

WASHINGTON COUNTY, ARKANSAS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS - MODIFIED CASH BASIS  
AS OF DECEMBER 31, 2003

Exhibit E

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 9,514,589</u>
<b>LIABILITIES</b>	
Settlements pending	<u>9,514,589</u>
<b>NET ASSETS</b>	<u>\$ 0</u>

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

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

**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 relationship with the County.

Discretely presented component unit

Discretely presented component units are separate legal entities that meet the component unit criteria for blending. The component unit that is discretely presented in the County's report is presented below:

Component Unit - Brief Description/Inclusion Criteria

Washington County Quorum Court Ordinance No. 2003-46 created the Washington County Library Board for the purpose of allocating and distributing the County Library mill and maintaining the Washington County Library System (WCLS). The WCLS provides an interlibrary loan service, cataloging and processing services, daily courier service, and many other library related services to the citizens of Washington County. The Board consists of seven members who are appointed by the County Judge and confirmed by the Quorum Courts.

Related Organization 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. Audited financial statements are available from the respective organizations. They are as follows:

Related Organization - Brief Description of Activities and Relationship to the County.

Washington County Quorum Court Ordinance No. 1978-18 created the Rural Development Authority (RDA) of Washington County pursuant to the provisions of Ark. Code Ann. 14-188-101. The Board consists of five members who are appointed by the County Judge and confirmed by the Quorum Court. The general powers of the RDA are primarily to exercise public and essential government functions necessary to carry out development projects. These include, but are not limited to, construction and operation of water works, consisting of water supply, treatment and distribution systems, and the construction and operation of waste collection and treatment systems.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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

**B. Basis of Presentation**

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts and disbursements. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the County or meets the following criteria:

- a. Total assets, liabilities, receipts, disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, receipts, disbursements of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity included in the financial statements are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund and is used to account for all financial resources, except those required to be accounted for in another fund. It is always classified as a major fund. The General Fund heading as it appears in the financial statements includes the following accounts: General, Treasurer, Collector, Assessor, Central Supply, Sales Tax, Animal Protection, Drug Buy, and Blue Cross/Blue Shield Employee Self Insurance Funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific receipt sources (other than major capital projects) that are legally restricted to disbursements for specific purposes. Management has elected to classify the Road Fund, which is a special revenue fund used to account for funds legally restricted for road expenditures, as a major fund. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: 9-1-1, H-I-V Clinic, Sheriff's Communication, Recorder's Cost, Law Enforcement Grants, Juvenile Council Fee, Support Collection Cost, Treasurer's Automation, Victims Assistance Program, Drug Court, Rural Community Grants, Community Care Foundation Grants, Collector's Automation, County Clerk's Recorder/Automation Cost, Court Automation, Fire Marshall Grant, Prosecuting Attorney Gun Violence Grant, Jail Operations Sales Tax, Weapons of Mass Destruction, Office of Emergency Services Grants, and Homeland Security.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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

**B. Basis of Presentation (Continued)**

**Governmental Funds** (Continued)

**Capital Project Fund**

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Jail Facility Capital Project Fund is reported as a major fund, which accounts for the construction of the new jail facility.

**Debt Service Fund**

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 Jail Facility Bond Fund is reported as a major fund, which accounts for the payment on principal and interest on the bonds used to build the new jail facility.

**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.

**C. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

In the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the current financial resources measurement focus, within the limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the "current financial resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

All governmental and fiduciary funds utilize a "current financial resources" measurement focus. Only cash, cash equivalents, investments, payroll taxes withheld, and settlements pending are generally included on their balance sheets. Governmental funds use fund balance as their measure of available spendable financial resources at the end of the period. Fiduciary fund equity is classified as net assets.

**Basis of Accounting**

The financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, 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 fixed 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.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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

**C. Measurement Focus and Basis of Accounting (Continued)**

Basis of Accounting (Continued)

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

**D. Assets, Liabilities, and Equity**

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 with an original maturity of three months or less.

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

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

The County has no policy regarding whether to first use restricted or unrestricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

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

**E. Receipts and Disbursements**

Program Receipts

In the Statement of Activities, modified cash basis receipts that are derived directly from each activity or from parties outside the County's taxpayers are reported as program receipts. The County has the following program receipts in each activity:

General government	Officer fees and State operational grants and contributions.
Public safety	Court fines, forfeitures and costs, officers fees, jail fees or reimbursements, 911 fees, State operational and capital grants and contributions, and Federal operational and capital grants and contributions.
Roads and public works	Culvert sales and sanitation fees.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

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.

**NOTE 2: CASH**

Custodial credit risk information for deposits has not been provided, as required by Governmental Accounting Standards Board Statement No. 3. This statement requires disclosure relating to whether deposits are insured or secured with collateral.

**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, 2003, the legal debt limit for the County was \$165,381,385. There were no property tax secured bond issues.



WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 5: Federal Funds Program Compliance**

A separate report was issued for the Washington County, Arkansas federal programs for 2003. No material instances of noncompliance were reported in the aforementioned report.

**NOTE 6: Reserved Fund Balance – Other Purposes**

Reserved fund balance consists of the following:

	December 31, 2003
General Fund	
Employee Self-Insured Benefits	\$ 704,323

**NOTE 7: Commitments**

Total commitments consist of the following at December 31, 2003:

	December 31, 2003
Long-Term Debt	\$ 15,825,421
Noncancellable operating leases	437,011
Construction contracts	12,157,998
Professional services contract	756,371
<b>TOTAL COMMITMENTS</b>	<b>\$ 29,176,801</b>

Long-Term Debt

Long-Term Debt at December 31, 2003 is comprised of the following:

	December 31, 2003
Capital Improvement Bonds Payable	
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. This issue had bonds called early in 2003 and 2002 in the amounts of \$6,060,000 and \$1,000,000, respectively.	\$ 11,540,000
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.	2,465,000
Total Capital Improvements Bonds Payable	14,005,000

WASHINGTON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2003

**NOTE 7: Commitments (Continued)**

	December 31, 2003
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% - 3.85% per annum, with scheduled maturities on May 1, 2002 and 2003, with a balloon payment on May 1, 2004.	\$ 1,525,000
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.	113,704
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.	181,717
Total Notes Payable	1,820,421
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 15,825,421</b>

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

Issuance of Long-Term Debt for Refunding Bonds

On July 1, 2003, the County issued \$2,465,000 in Capital Improvement Refunding Revenue Bonds (Juvenile Detention Center Project), Series 2003, dated July 1, 2003, with interest rates from 1.35% to 3.60% to advance refund \$2,275,000 of outstanding Capital Improvement Revenue Bonds (Juvenile Detention Center Project), Series 1999, dated July 1, 1999, with interest rates of 4% to 5.2%. Sufficient proceeds from the refunding issue plus other funds were deposited in an irrevocable trust with an escrow agent (First Security Bank of Searcy, Arkansas) to provide for all future debt service payments on the 1999 Series Bonds. As a result, the 1999 Series Bonds are considered to be defeased and liability for those bonds has been removed from the general long-term debt group.

The County advance refunded the 1999 Series Bonds. The total debt service payments decreased by \$97,606 over the next twelve years, and the County had an economic benefit (difference between the present values of the debt service payment on the old and new debt) of \$85,291.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 7: Commitments (Continued)**

Issuance of Long-Term Debt for Refunding Bonds

Bond proceed sources and uses are as follows:

SOURCES	
Sale of bonds	\$ 2,465,000
Accrued interest	5,127
Transfer from prior issue debt service fund	<u>214,552</u>
<b>TOTAL SOURCES</b>	<b><u><u>\$ 2,684,679</u></u></b>
USES	
Underwriter's discount	\$ 49,300
Original issue discount	9,329
Cost of Issuance	32,919
February 2004 interest payment	7,969
Funds remitted to debt service fund	5,127
Funds remitted to escrow agent	<u>2,580,035</u>
<b>TOTAL USES</b>	<b><u><u>\$ 2,684,679</u></u></b>

Compensated Absences

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

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

<u>Years Ending</u> <u>December 31,</u>	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
2004	\$ 12,133,161	\$ 1,665,882	\$ 13,799,043
2005	268,288	111,526	379,814
2006	270,110	47,791	317,901
2007	266,330	27,388	293,718
2008	266,710	14,098	280,808
2009 through 2013	1,333,825		1,333,825
2014 through 2018	<u>269,360</u>		<u>269,360</u>
Total Obligations	14,807,784	1,866,685	16,674,469
Less Interest	<u>(802,784)</u>	<u>(46,264)</u>	<u>(849,048)</u>
<b>Total Principal</b>	<b><u><u>\$ 14,005,000</u></u></b>	<b><u><u>\$ 1,820,421</u></u></b>	<b><u><u>\$ 15,825,421</u></u></b>

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. Since the amount of principal and interest on the leases was not available from the County's records, the disbursements are posted within the broad disbursement category classification in the financial statements. The County is obligated for the following amounts for the next five years:

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 7: Commitments (Continued)**

Noncancellable Capital Leases (Continued)

<u>Year</u>	<u>Amount</u>
2004	\$ 146,852
2005	133,643
2006	107,974
2007	43,534
2008	5,008
Total	<u>\$ 437,011</u>

Rental disbursements for 2003 was \$146,922, respectively.

Construction Contracts

The County was contractually obligated for the following contracts relating to the construction of the County Jail Facility at December 31, 2003:

<u>Contractor</u>	<u>Contract Date</u>	<u>Contract Amount</u>	<u>Contract Balance December 31, 2003</u>
Sprit Architecture Group, LLC	10/29/2001	\$ 1,249,088	\$ 127,407
Smith-Doyle Contractors, Inc.	10/9/2001	2,480,718	1,539,431
Sunset Development, Inc.	11/30/2004	652,991	40,990
APAC- Arkansas, Inc., McClinton Anchor Division	2/25/2003	101,728	101,728
West Memphis Fence & Construction, Inc.	2/25/2003	176,223	176,223
Second Nature Landscapes, Inc.	2/25/2003	39,482	39,482
SSI Incorporated of Northwest Arkansas	1/27/2003	3,357,233	1,744,126
Prestressed Casting Company- Design & Fabrication	2/4/2003	1,310,576	255,526
Prestressed Casting Company- Unload and Erection	2/4/2003	335,907	94,179
NWA Steel Erectors, Inc.	2/4/2003	710,133	272,972
Franklin & Son, Inc.	2/25/2003	347,053	185,053
Crum & Marshall Waterproofing, Inc.	2/25/2003	112,771	112,771
National Specialties Contractor, Inc.	2/25/2003	402,910	364,516
Miller Commercial Flooring, Inc.	8/5/2003	62,284	62,284
Geels Paint & Wallcovering, Inc.	2/25/2003	531,930	525,428
NBMC, Inc.	2/25/2003	68,067	66,510
ISI Detention Contracting Group, Inc.	2/6/2003	1,191,881	962,077
Foodservice Equipment Brokers, Inc.	1/27/2003	371,455	353,267
Malone's Mechanical, Inc.	1/27/2003	1,046,364	473,941
Fire Pro, Inc.	2/3/2003	380,661	377,385
Multi-Craft Contractors, Inc.	1/31/2003	1,618,880	1,285,600
Gigerich Electrical, Inc.	1/23/2003	1,696,784	1,363,788
Cornerstone Detention Products, Inc.	2/6/2003	703,007	394,438
Otis Elevator Company	9/3/2003	71,625	61,955
SSI Incorporated of Northwest Arkansas - Work Release- Phase III	9/9/2003	1,242,859	<u>1,176,921</u>
Total			<u>\$ 12,157,998</u>

WASHINGTON COUNTY, ARKANSAS  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2003

**NOTE 7: Commitments (Continued)**

Professional Services Contract

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 amount for 2004:

Year	Amount
2004	\$ 756,371

**NOTE 8: Subsequent Events**

A. Note Issue

On April 1, 2004, the County issued and sold two offerings, the Washington County General Revenue Promissory Notes (\$1,595,000 Series A Refunding and \$2,245,000 Series B Road Equipment Project), Series 2004. The Series 2004 A was a secondary note for \$1,595,000 and was issued to make the final balloon payment on the existing Washington County, Arkansas General Revenue Promissory Notes (Road Equipment Project), Series 2001; the Series 2004 A note was repaid on October 8, 2004. The Series 2004 B were issued for \$2,245,000 and were used for the purchase of road equipment. The Series 2004 B notes will be paid off over five years with payments due on April 1 of each year beginning in 2005 through 2009.

B. Jail Complex Construction

To date the County has expended \$20,895,834 for the construction of an integrated county facility comprised of a jail, courtroom, sheriff's offices, dispatch center, impounded property building, work release center, and related facilities. The jail was substantially completed on November 30, 2004 with an estimated completion cost of \$22,067,219.

C. Amendment Seventy-Eight Financing

On April 19, 2004, the County entered into a \$300,000 financing agreement with First Security Bank to partially finance the purchase of eight dump trucks. The note requires 36 monthly payments of \$8,762, beginning August 15, 2004 through July 15, 2007.

D. Bonds Called Early

On June 1, 2004, \$4,705,000 of Sales and Use Tax Capital Improvement Bonds – Series 2002 were called early for redemption, and an additional \$2,395,000 of Sales and Use Tax Capital Improvement Bonds – Series 2002 were called early for redemption December 1, 2004. This resulted in full call of the Jail Facility \$22,200,000 Sales and Use Tax Capital Improvement Bonds – Series 2002 on December 1, 2004.

E. Contract Obligation

The County renewed their contract for professional services with Arkansas CAMA Technology, Incorporated on December 8, 2004, to provide for the Countywide Real Estate Reappraisal Plan. The total contract amount for \$2,876,400 is payable over the next three years.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 9: Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

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

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

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 10: Arkansas Public Employees Retirement System**

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, 2003, 2002 and 2001 were \$1,086,770, \$1,029,862 and \$823,500, respectively, equal to the required contributions for each year.

WASHINGTON COUNTY, ARKANSAS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003

**NOTE 11: Self-Insured Benefits**

The County provides an insurance benefits plan for employees, on a self-insured basis. BlueAdvantage Administrators of Arkansas is 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, 2003, the balance in the account was \$704,323 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  
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS (Unaudited)  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003

WASHINGTON COUNTY, ARKANSAS  
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS (Unaudited)  
ROAD FUND  
FOR THE YEAR ENDED DECEMBER 31, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	<u>\$ 2,844,936</u>	<u>\$ 2,844,936</u>	<u>\$ 4,777,749</u>	<u>\$ 1,932,813</u>
<b>Resources (Inflows):</b>				
State aid	700,000	889,893	2,036,944	1,147,051
Federal aid	10,000	10,000	73,238	63,238
Property taxes	8,272,103	8,272,103	8,812,819	540,716
Franchise taxes	60,000	60,000	85,538	25,538
Sales taxes	3,266,900	3,266,900	3,641,382	374,482
Fines, forfeitures and costs	428,500	428,500	980,631	552,131
Interest	80,000	80,000	56,160	(23,840)
Officers' fees	550,000	550,000	436,934	(113,066)
Jail fees	670,000	670,000	1,074,139	404,139
Treasurer's commission	216,496	216,496	195,816	(20,680)
Collector's commission	899,974	899,974	453,972	(446,002)
Taxes apportioned - Assessor's salary and expense	1,309,043	1,309,043	1,024,183	(284,860)
Other	1,105,000	1,631,278	1,388,556	(242,722)
Other financing sources	2,083,888	1,583,888	2,442,116	858,228
Less treasurer's commission	(225,000)	(225,000)	(314,178)	(89,178)
<b>Amounts available for appropriation</b>	<u>22,271,840</u>	<u>22,488,011</u>	<u>27,165,999</u>	<u>4,677,988</u>
<b>Charges to Appropriations (Outflows):</b>				
General government	7,063,799	7,064,376	6,483,793	580,583
Public safety	10,288,941	10,787,536	10,583,355	204,181
Health and welfare	187,830	206,116	194,471	11,645
Debt service			230,997	(230,997)
Other financing uses:	2,043,888	2,043,888	1,851,890	191,998
<b>Total Charges to Appropriations</b>	<u>19,584,458</u>	<u>20,101,916</u>	<u>19,344,506</u>	<u>757,410</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 2,687,382</u>	<u>\$ 2,386,095</u>	<u>\$ 7,821,493</u>	<u>\$ 5,435,398</u>

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,909,111</u>	<u>\$ 409,111</u>
<b>Resources (Inflows):</b>				
State aid	2,620,000	2,620,000	2,677,462	57,462
Federal aid			31,558	31,558
Property taxes	731,435	731,435	647,063	(84,372)
Sales taxes	2,178,000	2,178,000	2,330,096	152,096
Interest	70,000	50,000	19,214	(30,786)
Other	402,600	648,303	951,682	303,379
Other financing sources	10,000	125,000	125,000	
Less treasurer's commission	(100,000)	(100,000)	(122,026)	(22,026)
<b>Amounts available for appropriation</b>	<u>7,412,035</u>	<u>7,752,738</u>	<u>8,569,160</u>	<u>816,422</u>
<b>Charges to Appropriations (Outflows):</b>				
Roads and public works	6,670,831	6,874,531	6,244,518	630,013
Debt service			226,091	(226,091)
<b>Total Charges to Appropriations</b>	<u>6,670,831</u>	<u>6,874,531</u>	<u>6,470,609</u>	<u>403,922</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 741,204</u>	<u>\$ 878,207</u>	<u>\$ 2,098,551</u>	<u>\$ 1,220,344</u>



WASHINGTON COUNTY, ARKANSAS  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
DECEMBER 31, 2003

Budget Law

State law requires that these procedures be followed in establishing budgetary data:

- a. Prior to the end of each fiscal year, the Quorum Court makes appropriations, by ordinance, for the disbursements of county government (General and Special Revenue Funds) for the following year.
- b. The Quorum Court may make appropriation amendments at any time during the current fiscal year.
- c. Appropriations lapse at the end of each year.
- d. Under certain conditions, the budget may be amended subsequent to the year end.

Basis of 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 Proprietary and Fiduciary Fund Types and the Capital Projects and Debt Service Funds.

WASHINGTON COUNTY, ARKANSAS  
 OTHER SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FIXED ASSETS  
 FOR THE YEAR ENDED DECEMBER 31, 2003  
 (Unaudited)

Schedule 2

	December 31, 2003
A. <u>General Fixed Assets</u>	
Land	\$ 3,401,269
Buildings and improvements	23,802,039
Equipment	14,992,571
Construction in progress	8,647,150
Total	\$ 50,843,029
B. <u>Component Unit Fixed Assets - County Library Board</u>	
Buildings	\$ 159,468
Equipment	218,458
Total	\$ 377,926