

Washington County, Arkansas
Regulatory Basis Financial Statements
and Other Reports

December 31, 2006

LEGISLATIVE JOINT AUDITING COMMITTEE



WASHINGTON COUNTY, ARKANSAS
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Senate Co-Chair
Rep. J R Rogers
House Co-Chair
Sen. Bobby L. Glover
Senate Co-Vice Chair
Rep. Johnny Hoyt
House Co-Vice Chair

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying regulatory basis financial statements of the general fund, road fund, and other funds in the aggregate of Washington County, Arkansas, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective regulatory basis financial position of the general fund, road fund, and other funds in the aggregate of Washington County, Arkansas, as of December 31, 2006, and the respective changes in the regulatory basis financial position, and the budgetary results for the general fund and road fund for the year then ended on the basis of accounting as described in Note 1(C).

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2008 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the accompanying regulatory basis financial statements of Washington County, Arkansas. The supplementary information in the Schedule of Capital Assets listed in the table of contents as Schedule 1 is required by the regulatory basis of presentation and is presented for the purpose of additional analysis. We have not applied auditing procedures to this information and, accordingly, we express no opinion on the Schedule of Capital Assets.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being the most prominent.

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

Little Rock, Arkansas
June 10, 2008
LOCO07206

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

Arkansas



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

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the accompanying regulatory basis financial statements of the general fund, road fund, and other funds in the aggregate of Washington County, Arkansas, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 10, 2008. We issued an adverse opinion because the County prepared the financial statements using accounting principles prescribed or permitted by Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, with respect to the basis of accounting described in Note 1(B and C), our opinions on the general fund, road fund, and other funds in the aggregate were qualified, because required disclosures were not made concerning deposit risks. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

2006-2 Arkansas Code requires that the County maintain accurate financial records. These financial records contained omissions/errors that were considered material. Various revenue items in the Other Funds in the Aggregate were adjusted in the amount of \$46,504 due to misclassifications in the records maintained by the Comptroller. The Other Funds in the Aggregate cash balance was adjusted in the amount of \$129,336 due primarily to posting errors and omissions in the Circuit Clerk's office amounting to \$127,801.

The effect of these omissions/errors constitutes a significant control deficiency in the process of preparing financial statements. We recommend the implementation of procedures to ensure that financial records are properly posted and reconciled.

The County Judge and Circuit Clerk have concurred with the above recommendation and have approved the appropriate entries to the County's financial records.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of the state constitution, laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Internal Control over Financial Reporting section as item 2006-2.

Other Issues

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

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

County Judge: Jerry Hunton
Treasurer: Roger Haney
Sheriff: Tim Helder
Tax Collector: David Ruff
County Clerk: Karen Combs-Pritchard
Circuit Clerk: Bette Stamps
Librarian: Glenda Audrain

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

County Judge

- A. Equipment records were not maintained in a manner to reflect all activity as required by Ark. Code Ann. §14-25-106.
- B. Competitive bids were not obtained on two software purchases and on road construction costs associated with a joint project between Washington and Benton Counties and Camp War Eagle. These disbursements exceeded \$15,000 and were required to be bid by Ark. Code Ann. §14-22-101 through §14-22-115.

Tax Collector

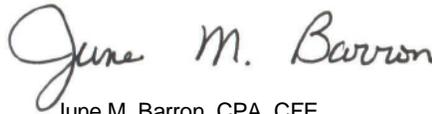
- A. For the fifth year, the final tax settlement was prepared on actual tax collections rather than on the property valuation system.
- B. We performed audit procedures on the information system controls in the Office of Tax Collector for the period of December 5, 2007 through March 4, 2008. Data integrity controls were found to be inadequate. Sound information system practices dictate that appropriate input edit checks should be in place to prevent erroneous data from entering the system.

Circuit Clerk

As previously noted, child support and advance cost subsidiary ledger cards did not reflect accurate balances by case in some instances and the monthly ending balances for these accounts were not properly identified. The omission of monthly identification resulted in Child Support pending ledger balances exceeding the cash balance by \$655, and the Advance Cost cash balance exceeding the ledger balance by \$63,941.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, local County government, state executive and oversight management, the federal awarding agencies and pass-through entities, if applicable, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Arkansas Code Annotated §10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT



June M. Barron, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
June 10, 2008

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

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 21,646,716	\$ 2,813,365	\$ 16,583,127
Escrow deposits with fiscal agent			423,532
TOTAL ASSETS	\$ 21,646,716	\$ 2,813,365	\$ 17,006,659
LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending			\$ 8,744,803
Fund Balances:			
Reserved	\$ 2,024,056	\$ 2,813,365	8,259,343
Unreserved:			
Designated - Courthouse renovation	726,786		
Undesignated	18,895,874		2,513
Total Fund Balances	21,646,716	2,813,365	8,261,856
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,646,716	\$ 2,813,365	\$ 17,006,659

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

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

Exhibit B

	<u>General</u>	<u>Road</u>	<u>Other Funds In The Aggregate</u>
RECEIPTS			
State aid	\$ 2,080,574	\$ 3,060,798	\$ 380,428
Federal aid		39,362	891,840
Property taxes	10,270,245	811,375	1,166,740
Sales taxes	4,480,158	2,986,772	7,840,267
Fines, forfeitures and costs	783,913		516,898
Interest	904,419	125,164	423,400
Officers' fees	1,039,674		1,418,159
Jail fees	81,790		1,545,321
911 fees			867,976
Insurance premiums collected	2,348,446		
Treasurer's commission	177,936		
Collector's commission	873,266		
Taxes apportioned - Assessor's salary and expense	1,388,944		
Other	2,248,096	1,004,549	774,896
	<u>26,677,461</u>	<u>8,028,020</u>	<u>15,825,925</u>
TOTAL RECEIPTS			
Less: Treasurer's commission	<u>376,085</u>	<u>153,759</u>	<u>282,131</u>
NET RECEIPTS	<u>26,301,376</u>	<u>7,874,261</u>	<u>15,543,794</u>
DISBURSEMENTS			
Current:			
General government	11,724,555		691,700
Law enforcement	8,782,915		11,914,164
Highways and streets		7,395,456	
Public safety	1,738,463		1,949,322
Sanitation	200,973		
Health	26,817		47,911
Recreation and culture			1,515,043
Total Current	<u>22,473,723</u>	<u>7,395,456</u>	<u>16,118,140</u>
Debt Service:			
Bond principal	20,316		210,000
Bond interest and other charges	44		63,570
Principal reduction on note		566,409	
Note interest and other charges		42,510	
TOTAL DISBURSEMENTS	<u>22,494,083</u>	<u>8,004,375</u>	<u>16,391,710</u>

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

Exhibit B

	<u>General</u>	<u>Road</u>	<u>Other Funds In The Aggregate</u>
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ 3,807,293</u>	<u>\$ (130,114)</u>	<u>\$ (847,916)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,275,781	115,623	676,847
Transfers out	<u>(792,470)</u>	<u></u>	<u>(1,275,781)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>483,311</u>	<u>115,623</u>	<u>(598,934)</u>
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	4,290,604	(14,491)	(1,446,850)
FUND BALANCES - JANUARY 1	<u>17,356,112</u>	<u>2,827,856</u>	<u>9,708,706</u>
FUND BALANCES - DECEMBER 31	<u><u>\$ 21,646,716</u></u>	<u><u>\$ 2,813,365</u></u>	<u><u>\$ 8,261,856</u></u>

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

WASHINGTON COUNTY, ARKANSAS
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,837,344	\$ 2,080,574	\$ 243,230	\$ 2,866,665	\$ 3,060,798	\$ 194,133
Federal aid				7,000	39,362	32,362
Property taxes	9,532,003	10,270,245	738,242	931,675	811,375	(120,300)
Sales taxes	4,541,250	4,480,158	(61,092)	3,027,500	2,986,772	(40,728)
Fines, forfeitures and costs	508,400	783,913	275,513			
Interest	75,000	904,419	829,419	50,000	125,164	75,164
Officers' fees	800,000	1,039,674	239,674			
Jail fees		81,790	81,790			
Insurance premiums collected	2,050,000	2,348,446	298,446			
Treasurer's commission	234,306	177,936	(56,370)			
Collector's commission	1,022,121	873,266	(148,855)			
Taxes apportioned - Assessor's salary and expense	1,744,868	1,388,944	(355,924)			
Other	1,391,996	2,248,096	856,100	1,001,875	1,004,549	2,674
TOTAL RECEIPTS	23,737,288	26,677,461	2,940,173	7,884,715	8,028,020	143,305
Less: Treasurer's commission	350,000	376,085	(26,085)	150,000	153,759	(3,759)
NET RECEIPTS	23,387,288	26,301,376	2,914,088	7,734,715	7,874,261	139,546
DISBURSEMENTS						
Current:						
General government	15,167,151	11,724,555	3,442,596			
Law enforcement	10,064,199	8,782,915	1,281,284			
Highways and streets				8,307,281	7,395,456	911,825
Public safety	1,751,455	1,738,463	12,992			
Sanitation	255,628	200,973	54,655			
Health	24,823	26,817	(1,994)			
Total Current	27,263,256	22,473,723	4,789,533	8,307,281	7,395,456	911,825

WASHINGTON COUNTY, ARKANSAS
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL AND ROAD FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (Continued)						
Debt Service:						
Bond principal		\$ 20,316	\$ (20,316)			
Bond interest and other charges		44	(44)			
				\$ 566,409		\$ (566,409)
				42,510		(42,510)
TOTAL DISBURSEMENTS	\$ 27,263,256	22,494,083	4,769,173	\$ 8,307,281	8,004,375	302,906
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(3,875,968)	3,807,293	7,683,261	(572,566)	(130,114)	442,452
OTHER FINANCING SOURCES (USES)						
Transfers in	1,217,645	1,275,781	58,136	115,623	115,623	
Transfers out	(389,695)	(792,470)	(402,775)			
TOTAL OTHER FINANCING SOURCES (USES)	827,950	483,311	(344,639)	115,623	115,623	
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(3,048,018)	4,290,604	7,338,622	(456,943)	(14,491)	442,452
FUND BALANCES - JANUARY 1	6,935,000	17,356,112	10,421,112	1,560,485	2,827,856	1,267,371
FUND BALANCES - DECEMBER 31	\$ 3,886,982	\$ 21,646,716	\$ 17,759,734	\$ 1,103,542	\$ 2,813,365	\$ 1,709,823

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

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

NOTE 1: Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

B. Basis of Presentation - Regulatory Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Arkansas Code requires that the financial statements be presented on a fund basis with, as a minimum, the general fund and road fund presented separately with all other funds included in the financial statements presented in the aggregate. This law also stipulates that the financial statements consist of: a balance sheet; a statement of revenues (receipts), expenditures (disbursements), and changes in fund equity (balances); a comparison of the final adopted budget to the actual expenditures for the general fund and road fund; notes to the financial statements; and a supplemental schedule of capital assets.

The following types of funds are recognized in the accompanying regulatory basis financial statements.

General Fund - The General Fund is the general operating fund and is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund heading as it appears in the financial statements includes the following funds: General, Treasurer, Collector, Assessor, Central Supply, Sales Tax, Animal Protection, Drug Buy, Blue Cross/Blue Shield Employee Self Insurance and Historic Courthouse Renovation.

Road Fund - The Road Fund is used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for maintaining and constructing County roads.

Other Funds in the Aggregate - Other Funds in the Aggregate consist of all funds included in the financial statements except for the General and Road Funds. The following types of funds are included in this column as follows:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific receipt sources that are legally restricted to disbursements for specific purposes. The following special revenue funds are reported with other funds in the aggregate: 9-1-1, H-I-V Clinic, Recorder's Cost, Jail Operations Sales Tax, Sheriff's Communication, Juvenile Counsel Fee, Support Collection Cost, Treasurer's Automation, Law Enforcement Grants, Victim's Assistance Program, Drug Court Grant, Rural Community Grants, Community Care Grants, Collector's Automation, County Clerk's Recorder's Cost/Automation Cost, Court Automation, Fire Marshal Grant, Prosecuting Attorney Gun Violence Grant, Weapons of Mass Destruction, Office of Emergency Services Grants, Homeland Security Grant, Community Emergency Response Team Grant, Federal Emergency Management Assistance, Library and Community Grants.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The following debt service fund is reported with other funds in the aggregate: Juvenile Detention Complex Bond Payment.

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

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

Other Funds in the Aggregate (Continued)

Agency Funds - Agency Funds are used to account for assets held by the entity as an agent for individuals, private organizations, other governmental units, and other funds. The following agency funds are reported with other funds in the aggregate: County Judge's account (Juvenile Detention Center), County Treasurer's accounts (Law Library, Purchase Card Clearing, Flex Spending, Environmental Protection Agency Wetland Project, Land Sales, Fire Protection, Hazmat, ACDEP Water Project, Illinois Chapel Construction Project, North Central Operation and Maintenance, USDA Southeast Water, Devil's Den Water Project, School Accounts, City Accounts and Evansville Water), Collector's accounts (Current/Delinquent Tax and Escrow), Sheriff's accounts (Fee, Bond and Fine, Felony Bond and Fine, Drug Buy and Execution), County Clerk's accounts (Fee and Trust), and Circuit Clerk's accounts (Fee, Advanced Cost, Child Support, Circuit Fines and Cost Adult, and Circuit Fines and Cost Juvenile).

C. Basis of Accounting

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

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

D. Assets, Liabilities and Fund Balances

Cash and Cash Equivalents

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

Liabilities

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

Fund Balance

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

E. Property Taxes

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

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

NOTE 1: Summary of Significant Accounting Policies (Continued)

F. Budget Law

1. Legal Requirements

State law requires that the Quorum Court, before the end of each fiscal year, make appropriations, by ordinance, for the disbursements of County government for the following year. The Quorum Court may make appropriation amendments at any time during the current fiscal year. Appropriations lapse at the end of each year. Under certain conditions, the budget may be amended subsequent to the year-end.

2. Accounting

The County prepared an annual budget on the regulatory basis for the General Fund, Road Fund and the other Special Revenue Funds.

NOTE 2: Cash

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

NOTE 3: Legal or Contractual Provisions for Deposits and Investments

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

NOTE 4: Legal Debt Limit

A. Bonded Debt

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2006, the legal debt limit for bonded debt was \$226,941,873. There were no property tax secured bond issues.

B. Short-term Financing Obligations

The County is subject to a constitutional limitation for short-term financing obligations equal to two and one half percent (2.5%) of the assessed value of taxable property within the County as determined by the last tax assessment. At December 31, 2006, the legal debt limit for short-term financing obligations was \$58,708,627. The amount of short-term financing obligations was \$1,487,696, leaving a legal debt margin of \$57,220,931.

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

NOTE 5: Reserved Fund Balance

Reserved fund balance consists of the following:

	December 31, 2006
<u>General</u>	
Blue Cross/Blue Shield Employee Self-Insurance	\$ 2,024,056
<u>Road</u>	2,813,365
<u>Other Funds in the Aggregate</u>	
Special Revenue Funds:	
9-1-1	\$ 96,302
H-I-V Clinic	52,027
Recorder's Cost	1,489,223
Jail Operations Sales Tax	3,788,354
Sheriff's Communication	493,375
Juvenile Counsel Fee	2,534
Support Collection Cost	4,752
Treasurer's Automation	9,807
Law Enforcement Grants	127,707
Drug Court Grant	19,553
Rural Community Grants	44,520
Collector's Automation	138,172
County Clerk's Recorder's Cost/Automation Cost	329,967
Court Automation	57,310
Fire Marshal Grant	50,873
Office of Emergency Services Grants	16,563
Homeland Security Grant	1,990
Community Emergency Response Team Grant	15
Library	594,344
Community Grants	60,429
Total Special Revenue	7,377,817
Debt Service Fund:	
Juvenile Detention Complex Bond Payment	881,526
Total Other Funds in the Aggregate	8,259,343
Total	\$ 13,096,764

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

NOTE 6: Commitments

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

	December 31, 2006
Long-Term Debt	\$ 3,953,086
Noncancellable lease	321,454
Construction contracts	834,593
Professional services contract	864,388
Total Commitments	\$ 5,973,521

Long-Term Debt

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

	December 31, 2006
Capital Improvement Bonds Payable	
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.	\$ 1,855,000
General Revenue Promissory Notes Payable	
County Ordinance No. 04-12 approved the issuance of Washington County, Arkansas - General Revenue Promissory Notes (Refunding and Road Equipment Project), Series 2004A and 2004B, in the amount of \$1,595,000 and \$2,245,000, respectively. Series 2004A matured on November 1, 2004. Series 2004B bears interest at 1.25% - 2.6% per annum, with scheduled maturities of April 1st in each of the years 2005 through 2009.	1,370,000
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.	42,505
County Ordinance No. 04-20 authorized the issuance and sale of General Revenue Promissory Notes (Dump Truck Project), Series 2004, for the purchase of road equipment in the amount of \$300,000, bearing interest at 3.24% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until July 15, 2007.	75,191
Total General Revenue Promissory Notes Payable	1,487,696
Compensated Absences	610,390
Total Long-term Debt	\$ 3,953,086

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

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

NOTE 6: Commitments (Continued)

Debt Service Requirements to Maturity

The County is obligated for the following amounts:

Years Ending December 31,	Bonds	Notes	Total
2007	\$ 266,330	\$ 583,079	\$ 849,409
2008	266,710	486,420	753,130
2009	266,335	471,045	737,380
2010	265,175		265,175
2011	235,000		235,000
2012 through 2014	836,675		836,675
Total Obligations	2,136,225	1,540,544	3,676,769
Less Interest	281,225	52,848	334,073
Total Principal	<u>\$1,855,000</u>	<u>\$1,487,696</u>	<u>\$ 3,342,696</u>

Noncancellable Lease

The County entered into a noncancellable lease agreement for 9-1-1 equipment on September 14, 2005. Terms of the lease are annual rental payments of \$91,602 for 5 years. The County has not recognized the lease as capital in nature and therefore has not recorded the equipment in their fixed asset records. The County has obtained an amortization schedule to identify principal and interest payments. The County is obligated for the following amounts for the next four years:

<u>Year</u>	<u>Amount</u>
2007	\$ 91,602
2008	91,602
2009	91,602
2010	91,602
Total scheduled payments	366,408
Less amount representing interest	44,954
Total	<u>\$ 321,454</u>

Construction Contracts

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

<u>Project Name</u>	<u>Estimated Completion Date</u>	<u>Contract Balance</u>
Washington County Renovation of the Old Courthouse	9/18/2007	<u>\$ 834,593</u>

Professional Services Contract

The County entered into a professional services contract for \$2,876,400 with Arkansas CAMA Technology for real estate appraisal and reappraisal maintenance on December 8, 2004. Terms of the contract were two payments during 2004 for \$68,142 each with the remainder of the contract paid with 34 installments of approximately \$80,592 each with a prorated reduction of \$3,529.41 (\$120,000 / 34 = \$3,529.41) on each of the last 34 monthly payments for the cost of the County's licensing agreement with Pictometry software. The County is obligated for the remainder of the contract in 2007 for the amount due \$864,388.

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

NOTE 7: Subsequent Events

The County agreed to an out-of-court settlement of \$135,000 to SSI, Inc., on August 6, 2007, due to threatened litigation of a breach of contract suit involving change orders and additional work on the County's jail construction project.

The County entered into a lease agreement with the University of Arkansas Medical Sciences on December 26, 2007, to lease the former Washington Regional Hospital to UAMS for educational purposes. The former Washington Regional Hospital sets on ground owned by Washington County, but the building is owned by the Veteran's Administration.

The County entered into short-term (Amendment #78) financing with Liberty Bank for \$266,744 for a crusher, equipment and land.

NOTE 8: Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year except that according to the County Attorney, the County had elected to not maintain any insurance coverage for the loss of the County's airplane (which is used by and large for prisoner transport) and does not carry any bodily or property damage liability coverage relating to the pilots (County employees) or passengers (prisoners) as it is his understanding that the pilots are covered under the Worker's Compensation policy, and the passengers are entitled to only medically necessary treatment that may be paid from county funds or state funds. According to the County Attorney, the County has owned an airplane for several years and there have been no related claims for property damage, workers' compensation or medical bills for prisoners. According to the County Attorney, the County also transports prisoners by vehicle and over the years there have been several claims for property damage, workers' compensation and prisoners and other third party medical bills. The County is required by law to carry minimal liability coverage on its vehicles and has immunity for any losses over and above said amount. The County Attorney recommended that the County obtain property insurance on the airplane, and this coverage was obtained on September 25, 2006.

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.

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

NOTE 9: Arkansas Public Employees Retirement System

Plan Description

The County contributes to the Arkansas Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 W. Capitol, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy

PERS has contributory and non-contributory plans. Contributory members are required by code to contribute 5% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation.

NOTE 10: 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, 2006, the balance in the account was \$2,024,056, 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
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Unaudited)

Schedule 1

	<u>December 31, 2006</u>
Land	\$ 3,363,682
Buildings and improvements	68,414,504
Equipment	<u>20,669,864</u>
Total	<u>\$92,448,050</u>