

Washington County, Arkansas

**Regulatory Basis Financial Statements,
Supplemental Information and Other Reports**

December 31, 2005

LEGISLATIVE JOINT AUDITING COMMITTEE



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

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2005, 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 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, 2005, or the changes in financial position or cash flows, where applicable, thereof for the year then ended. Further, the County has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The financial statements referred to above do not disclose all the required information concerning deposit and investment 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, 2005, 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 November 27, 2006 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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

Handwritten signature of Charles L. Robinson in black ink.

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 27, 2006
LOCO07205

Sen. Henry "Hank" Wilkins, IV
Senate Co-Chair
Rep. Tommy G. Roebuck
House Co-Chair
Sen. Randy Laverty
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 INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS, AND OTHER ISSUES

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, 2005 and have issued our report thereon dated November 27, 2006. In our report, our opinions on the general fund, road fund, and other funds in the aggregate were qualified because required disclosures were not made concerning deposit and investment 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, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

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

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

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

Compliance and Other Matters

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

Other Issues

The following issues are not reportable conditions 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 2005:

County Judge: Jerry Hunton
Treasurer: Roger Haney
Sheriff: Tim Helder
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 **Treasurer** and **County Clerk** were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and accepted accounting practices were noted in the Offices of **County Judge, Sheriff, Tax Collector, Circuit Clerk** and **Assessor** and are reported below:

County Judge:

The County's fixed asset records were noted as being incomplete due to several issues. The errant and omitted data weakened the County's controls of fixed assets and resulted in uninsured, undocumented and/or unidentified assets.

Tax Collector:

- A. For the fourth year, the final tax settlement was prepared on the actual net tax collections rather than on the property valuation system.
- B. The Tax Collector approved payments totaling \$54,645 to Cedarview Custom Software, Inc. in 2004 for the delivery of a software package for the Tax Collector by January 1, 2005. The disbursements were made prior to services rendered and the software has still not been delivered to the County as of the date of this report.
- C. 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.

Sheriff:

For the third year, the ticket book log did not reflect ticket books completed and tickets were not documented as reported on arrest reports to the District Courts as required by Ark. Code Ann. 16-10-207. The lack of control over the ticket book process can result in the misappropriation of funds and lost revenue to the County.

Circuit Clerk:

- A. As previously noted, subsidiary ledger cards were not maintained and the child support and advanced cost accounts monthly ending balances were not properly identified. The omission of monthly identification resulted in unidentified balances in Advance Cost and Child Support at December 31, 2005, of \$32,309 and \$1,135, respectively.
- B. The Circuit Clerk again did not notify the Circuit Judges, in writing, of the fines or costs assessed but not collected. The Circuit Clerk did, however, deliver a report monthly to the Prosecuting Attorney, but the report excluded a grand total as required by Ark. Code Ann. 16-10-209. The lack of a total for fines due negates the ability of the judge to determine trends in the amounts due from fines and costs.

Assessor:

As previously reported, the system does not meet the following password standards: require the user to change the password at initial logon, require passwords to be changed and does not maintain a password history file to prevent reuse of recent passwords.

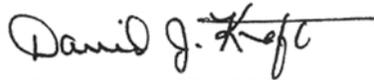
Failure to establish proper password controls increases the likelihood that an unauthorized person could gain access to the system. We recommend that the Assessor's office implement strengthened password controls.

Assessor's Response

In a letter dated September 25, 2006 the assessor stated, "These findings and their associated recommendations are generally used for large businesses with large risks. This office handles no money, and has no history which would indicate a large risk. Many years ago, when we implemented the computer on every desktop and the local area network, we tried to adhere to standards like these. It proved to be disastrous. There is simply not enough manpower to keep unlocking the accounts when passwords are forgotten. When employees realized that they would have to admit to not knowing their passwords, and it would be a terrible inconvenience for them and administrative staff, they took to noting their passwords on Post-its mounted to their monitors, desks, and anything else they would stick to. This resulted in the County implementing other security measures that required less manual maintenance to keep risks low. Because no money is handled, and historically, there have been no problems in this area, and because of limited funds and staffing, I decline to implement these recommendations."

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

DIVISION OF LEGISLATIVE AUDIT



David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 27, 2006

WASHINGTON COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - REGULATORY BASIS
 DECEMBER 31, 2005

Exhibit A

	General	Road	Other Funds In The Aggregate
ASSETS			
Cash and cash equivalents	\$ 17,357,762	\$ 2,827,856	\$ 16,511,633
Escrow deposits with fiscal agent			409,564
 TOTAL ASSETS	<u>\$ 17,357,762</u>	<u>\$ 2,827,856</u>	<u>\$ 16,921,197</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Settlements pending			\$ 7,215,004
 Fund Balances:			
Reserved	\$ 1,675,402	\$ 2,827,856	9,706,193
Unreserved:			
Designated for historic courthouse renovation	937,488		
Undesignated	14,744,872		
Total Fund Balances	<u>17,357,762</u>	<u>2,827,856</u>	<u>9,706,193</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,357,762</u>	<u>\$ 2,827,856</u>	<u>\$ 16,921,197</u>

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

WASHINGTON COUNTY, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Road	Other Funds In The Aggregate
RECEIPTS			
State aid	\$ 1,892,678	\$ 3,117,866	\$ 443,676
Federal aid	80,314	110,010	1,052,443
Property taxes	8,737,123	753,979	1,060,344
Sales taxes	4,357,877	2,905,043	8,180,454
Fines, forfeitures and costs	715,063		493,646
Interest	381,285	73,915	244,125
Officers' fees	906,570		1,514,932
Jail fees	34,868		1,209,565
911 fees			929,084
Treasurer's commission	170,048		16,000
Collector's commission	817,095		59,070
Taxes apportioned - Assessor's salary and expense	1,333,186		
Other	2,387,403	1,161,642	1,869,140
 TOTAL RECEIPTS	 21,813,510	 8,122,455	 17,072,479
 Less: Treasurer's commission	 318,728	 136,566	 277,688
 NET RECEIPTS	 21,494,782	 7,985,889	 16,794,791
 DISBURSEMENTS			
Current:			
General government	9,037,524		454,251
Law enforcement	8,027,427		9,340,381
Highways and streets		7,152,510	339,212
Public safety	1,477,224		1,991,818
Sanitation	226,228		
Health	24,446		50,498
Recreation and culture			1,310,897
Total Current	18,792,849	7,152,510	13,487,057

WASHINGTON COUNTY, ARKANSAS
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
 REGULATORY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005

Exhibit B

	General	Road	Other Funds In The Aggregate
DISBURSEMENTS (Continued)			
Capital outlay			\$ 1,815,126
Debt service:			
Bond principal			205,000
Bond interest and other charges			242,817
Principal reduction on note	\$ 82,005	\$ 557,145	
Note interest and other charges	2,133	53,054	
	<u>18,876,987</u>	<u>7,762,709</u>	<u>15,750,000</u>
 EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>2,617,795</u>	<u>223,180</u>	<u>1,044,791</u>
 OTHER FINANCING SOURCES (USES)			
Transfers in	1,714,500		2,347,412
Transfers out	(314,143)		(3,747,769)
Insurance premiums collected	2,128,585		
Insurance claims paid	(1,797,834)		
	<u>1,731,108</u>		<u>(1,400,357)</u>
 EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	<u>4,348,903</u>	<u>223,180</u>	<u>(355,566)</u>
 FUND BALANCES - JANUARY 1	<u>13,008,859</u>	<u>2,604,676</u>	<u>10,061,759</u>
 FUND BALANCES - DECEMBER 31	<u>\$ 17,357,762</u>	<u>\$ 2,827,856</u>	<u>\$ 9,706,193</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, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
RECEIPTS						
State aid	\$ 1,823,221	\$ 1,892,678	\$ 69,457	\$ 2,812,914	\$ 3,117,866	\$ 304,952
Federal aid		80,314	80,314	7,000	110,010	103,010
Property taxes	8,569,436	8,737,123	167,687	866,000	753,979	(112,021)
Sales taxes	3,885,000	4,357,877	472,877	2,590,000	2,905,043	315,043
Fines, forfeitures and costs	501,351	715,063	213,712			
Interest	40,000	381,285	341,285	15,000	73,915	58,915
Officers' fees	675,000	906,570	231,570			
Jail fees		34,868	34,868			
Treasurer's commission	239,381	170,048	(69,333)			
Collector's commission	987,454	817,095	(170,359)			
Taxes apportioned - Assessor's salary and expense	1,591,882	1,333,186	(258,696)			
Other	1,416,819	2,387,403	970,584	819,770	1,161,642	341,872
TOTAL RECEIPTS	19,729,544	21,813,510	2,083,966	7,110,684	8,122,455	1,011,771
Less: Treasurer's commission	300,000	318,728	(18,728)	125,000	136,566	(11,566)
NET RECEIPTS	19,429,544	21,494,782	2,065,238	6,985,684	7,985,889	1,000,205
DISBURSEMENTS						
Current:						
General government	9,025,094	9,037,524	(12,430)			
Law enforcement	9,689,767	8,027,427	1,662,340			
Highways and streets				7,163,525	7,152,510	11,015
Public safety	1,547,337	1,477,224	70,113			
Sanitation	277,176	226,228	50,948			
Health	23,905	24,446	(541)			
Total Current	20,563,279	18,792,849	1,770,430	7,163,525	7,152,510	11,015

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, 2005

Exhibit C

	General			Road		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
DISBURSEMENTS (Continued)						
Debt service:						
Principal reduction on note		\$ 82,005	\$ (82,005)	\$ 618,923	\$ 557,145	\$ 61,778
Note interest and other charges		2,133	(2,133)		53,054	(53,054)
TOTAL DISBURSEMENTS	\$ 20,563,279	18,876,987	1,686,292	7,782,448	7,762,709	19,739
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,133,735)	2,617,795	3,751,530	(796,764)	223,180	1,019,944
OTHER FINANCING SOURCES (USES)						
Transfers in	2,858,807	1,714,500	(1,144,307)	127,575		(127,575)
Transfers out	(977,882)	(314,143)	663,739			
Insurance premiums collected	2,000,000	2,128,585	128,585			
Insurance claims paid	(3,500,000)	(1,797,834)	1,702,166			
TOTAL OTHER FINANCING SOURCES (USES)	380,925	1,731,108	1,350,183	127,575		(127,575)
EXCESS OF RECEIPTS AND OTHER SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER USES	(752,810)	4,348,903	5,101,713	(669,189)	223,180	892,369
FUND BALANCES - JANUARY 1	5,168,712	13,008,859	7,840,147	1,500,000	2,604,676	1,104,676
FUND BALANCES - DECEMBER 31	\$ 4,415,902	\$ 17,357,762	\$ 12,941,860	\$ 830,811	\$ 2,827,856	\$ 1,997,045

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

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies

As discussed further in Note 1(B), these financial statements are presented in accordance with the regulatory basis of presentation 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, and Library.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The following capital projects fund is reported with other funds in the aggregate: Jail Facility Capital Project.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

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

Other Funds in the Aggregate (Continued)

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

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 (Law Library, Flex Spending, Environmental Protection Agency Wetland Project, Hazmat, ACDEP 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, 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 investments and settlements pending. This regulatory basis differs from accounting principles generally accepted in the United States of America.

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

D. Assets, Liabilities, and Fund Balances

Cash and Cash Equivalents

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

Liabilities

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

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.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Property Taxes

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

F. Budget Law

1. Legal Requirements

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

2. Accounting

The County prepared an annual budget on the regulatory basis for the General Fund, Road Fund and the other Special Revenue Funds except for the Weapons of Mass Destruction Grant Fund.

NOTE 2: Cash and Investments

Deposit and investment risks related to credit risk, concentration of credit risk, and interest rate risk has 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 - 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, 2005, the legal debt limit for the County was \$202,139,994. There were no property tax secured bond issues.

NOTE 5: Federal Funds Program Compliance

A separate report was issued for the Washington County, Arkansas federal programs for 2005. No material instances of noncompliance were reported in the aforementioned report.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 6: Reserved Fund Balance

Reserved fund balance consists of the following:

		December 31, 2005
<u>General:</u>		
Blue Cross/Blue Shield Employee Self-Insurance Fund	\$	1,675,402
Road		<u>\$ 2,827,856</u>
<u>Other Funds in the Aggregate:</u>		
Special Revenue Funds:		
9-1-1	\$	51,543
H-I-V Clinic		43,355
Recorder's Cost		1,874,538
Jail Operations Sales Tax		5,223,012
Sheriff's Communication		358,291
Juvenile Counsel Fee		2,420
Support Collection Cost		2,968
Treasurer's Automation		14,036
Law Enforcement Grants		113,889
Victims Assistance Program		22,002
Drug Court		10,744
Rural Community Grants		80,073
Community Care Foundation Grants		1
Collector's Automation		160,921
County Clerk's Recorder/Automation Cost		217,097
Court Automation		45,213
Fire Marshal Grant		46,474
Prosecuting Attorney Gun Violence Grant		22,557
Weapons of Mass Destruction		6,546
Office of Emergency Services Grants		52,816
Homeland Security		57,714
Community Emergency Response Team		4,904
Federal Emergency Management Assistance		35,388
Library		583,196
Total Special Revenue		<u>9,029,698</u>
Debt service:		
Juvenile Detention Complex Bond Payment Fund		<u>676,495</u>
Total Other Funds in the Aggregate		<u>\$ 9,706,193</u>

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7: Commitments

Total commitments consist of the following at December 31, 2005:

	December 31, 2005
Long-term debt	\$ 4,139,421
Noncancellable leases	410,938
Construction contracts	1,130,537
Professional services contract	1,789,135
TOTAL COMMITMENTS	\$ 7,470,031

Long-Term Debt

Long-Term Debt at December 31, 2005 is comprised of the following:

	December 31, 2005
<u>Capital Improvement Bonds Payable</u>	
County Ordinance No. 03-29 approved the issuance of Washington County, Arkansas - Capital Improvement Refunding Revenue Bonds (Juvenile Detention Center Project), Series 2003, in the amount of \$2,465,000, bearing interest at 1.35% - 3.6% per annum, with scheduled maturities on August 1st in each of the years 2004 through 2014.	\$ 2,065,000
<u>General Revenue Promissory Notes Payable</u>	
County Ordinance No. 04-12 approved the issuance of Washington County, Arkansas - General Revenue Promissory Notes (Refunding and Road Equipment Project), Series 2004A and 2004B, in the amount of \$1,595,000 and \$2,245,000, respectively. Series 2004A matured on November 1, 2004. Series 2004B bears interest at 1.25% - 2.6% per annum, with scheduled maturities of April 1st in each of the years 2005 through 2009.	1,810,000
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.	65,622
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.	20,316
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.	178,483
Total General Revenue Promissory Notes Payable	2,074,421
Total Long-Term Debt	\$ 4,139,421

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, 2005

NOTE 7: Commitments (Continued)

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 December 31,</u>	<u>Bonds</u>	<u>Notes</u>	<u>Leases</u>	<u>Total</u>
2006	\$ 270,110	\$ 628,122	\$ 94,914	\$ 993,146
2007	266,330	583,303	91,602	941,235
2008	266,710	486,420	91,602	844,732
2009	266,335	471,045	91,602	828,982
2010	265,175		91,602	356,777
2011 through 2015	<u>1,071,675</u>			<u>1,071,675</u>
Total Obligations	<u>2,406,335</u>	<u>2,168,890</u>	<u>461,322</u>	<u>5,036,547</u>
Less Interest	<u>341,335</u>	<u>94,469</u>	<u>50,384</u>	<u>486,188</u>
Total Principal	<u>\$ 2,065,000</u>	<u>\$ 2,074,421</u>	<u>\$ 410,938</u>	<u>\$ 4,550,359</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 five years:

<u>Year</u>	<u>Amount</u>
2006	\$ 94,914
2007	91,602
2008	91,602
2009	91,602
2010	91,602
Total Scheduled Payments	<u>461,322</u>
Amount Representing Interest	<u>(50,384)</u>
Total	<u>\$ 410,938</u>

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 7: Commitments (Continued)

Construction Contracts

The County was contractually obligated for the following contracts relating to the construction of the County Jail Facility at December 31, 2005.

Contractor	Contract Date	Contract Amount	Contract Balance at December 31, 2005
County Jail Pod B:			
Spirit Architecture	4/11/2005	\$ 35,480	\$ 4,754
Smith-Doyle Contractors - Construction Manager	4/11/2005	185,271	129,832
Smith-Doyle Contractors - Masonry	10/21/2005	310,500	100,064
The Accoustical Group	7/25/2005	3,500	3,500
Desco Systems	8/22/2005	31,139	31,139
Springdale Acoustics	7/25/2005	108,341	108,341
Sweeper Metal Fabricators Corp.	7/25/2005	243,876	226,445
Franklin & Sons	7/25/2005	24,900	24,900
Crum & Marshall	7/25/2005	6,532	6,532
Fire Pro, Inc.	7/25/2005	19,470	17,700
Multi-Craft Contractors, Inc.	7/25/2005	499,028	477,330
Total			<u>\$ 1,130,537</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 thirty-four installments of approximately \$80,592 each with a pro rated reduction of \$3,529.41 ($\$120,000 / 34 = \$3,529.41$) on each of the last thirty-four monthly payments for the cost of the County's licensing agreement with Pictometry software. The County is obligated for the following amounts for the next two years:

Year	Amount
2006	\$ 983,218
2007	805,917
Total	<u>\$ 1,789,135</u>

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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; however, the County does have tort immunity according to Arkansas Code Annotated 21-9-301. These risks are covered by commercial insurance purchased from independent third parties and participation in a public entity risk pool. The amount of settlements has not exceeded the insurance coverage for the past three years. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year except that according to the County Attorney, the County has elected to not maintain any insurance coverage for the loss of the County's airplane (which is used by and large for prisoner transport) and does not carry any bodily or property damage liability coverage relating to the pilots (County employees) or passengers (prisoners) as it is his understanding the pilots are covered under the Worker's Compensation policy and the passengers are entitled to only medically necessary treatment 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 claims for property damage, workers' compensation or medical bills for prisoners. According to the County Attorney, the County also transports prisoners by vehicle and over the years there have been several claims for property damage, workers' compensation and prisoners and other third party medical bills. The County is required by law to carry minimal liability coverage on its vehicles and has immunity for any losses over and above said amount. The County Attorney has recommended that the County obtain property insurance on the airplane, which was subsequently obtained during 2006 as aircraft and contents liability coverage.

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, 2005

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 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation.

NOTE 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, 2005, the balance in the account was \$1,675,402, and is reflected in the financial statements as the General Funds reserved fund balance. To safeguard against catastrophic claims expenses, the County also maintains a reinsurance policy with SAFECO, which will fund individual claims that exceed \$100,000 per occurrence.

WASHINGTON COUNTY, ARKANSAS
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Unaudited)

Schedule 1

	<u>December 31, 2005</u>
Land	\$ 3,363,682
Buildings	47,700,759
Equipment	<u>18,992,266</u>
Total	<u><u>\$70,056,707</u></u>