

Washington County, Arkansas

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

December 31, 2001

LEGISLATIVE JOINT AUDITING COMMITTEE



WASHINGTON COUNTY, ARKANSAS
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Sen. Kevin A. Smith
Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Washington County, Arkansas, as of and for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The financial statements referred to above do not 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 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 assets and liabilities arising from modified cash transactions of Washington County, Arkansas, as of December 31, 2001, and the revenues and expenditures for the year then ended on the modified cash basis of accounting described in Note 1(C), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2002 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DIVISION OF LEGISLATIVE AUDIT

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

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
October 23, 2002
LOCO07201

Sen. Kevin A. Smith
Senate Co-Chair
Rep. Danny W. Ferguson
House Co-Chair
Sen. Henry "Hank" Wilkins, IV
Senate Co-Vice Chair
Rep. Tommy Roebuck
House Co-Vice Chair

Arkansas



Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

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

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

We have audited the financial statements of Washington County, Arkansas, as of and for the year ended December 31, 2001 and have issued our report thereon dated October 23, 2002. In our report, our opinion was qualified because the required disclosures were not made concerning deposits and investments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

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

Other Management Issues

The commentary contained in this section relates to the following officials that held office during 2001:

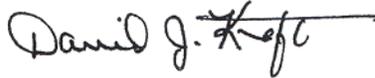
County Judge: Jerry Hunton
Treasurer: Roger Haney
Tax Collector: David Ruff
County Clerk: Marilyn Edwards
Circuit Clerk: Bette Stamps

Our audit procedures indicated that the above offices were in substantial compliance with Arkansas fiscal and financial laws. Noncompliance with state law and inadequate internal control procedures were noted in the office of **Sheriff** and are cited below:

The **Sheriff** did not maintain adequate accounting records. The lack of basic accounting records results in little control over cash transactions and ticket books.

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

A handwritten signature in black ink that reads "David J. Kraft". The signature is written in a cursive style with a long horizontal stroke extending to the right.

David J. Kraft, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
October 23, 2002

WASHINGTON COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT -
 MODIFIED CASH BASIS
 DECEMBER 31, 2001

Exhibit A

	Governmental Fund Types			Fiduciary Fund Type Agency	Account Groups		Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service		General Fixed Assets	General Long- Term Debt	Primary		Reporting Entity
							Government December 31, 2001		
ASSETS AND OTHER DEBITS									
Cash and cash equivalents	\$ 2,621,768	\$ 4,162,096	\$ 244,999	\$ 14,934,828			\$ 21,963,691	\$ 1,330,409	\$ 23,294,100
Escrow deposits with fiscal agent			159,288				159,288		159,288
Restricted assets:									
Cash and cash equivalents	34,362						34,362		34,362
Investments (Certificates of deposit)	68,320						68,320		68,320
Land					\$ 2,099,450		2,099,450		2,099,450
Buildings and improvements					24,969,917		24,969,917	159,468	25,129,385
Equipment					12,182,264		12,182,264	219,774	12,402,038
Construction in progress					1,922,920		1,922,920		1,922,920
Amount to be provided for retirement of notes payable						\$ 320,908	320,908		320,908
Amount to be provided for retirement of capital improvement revenue bonds						2,175,713	2,175,713		2,175,713
Amount to be provided for retirement of general revenue promissory notes payable						1,820,000	1,820,000		1,820,000
Amount available in debt service fund						404,287	404,287		404,287
TOTAL ASSETS AND OTHER DEBITS	\$ 2,724,450	\$ 4,162,096	\$ 404,287	\$ 14,934,828	\$ 41,174,551	\$ 4,720,908	\$ 68,121,120	\$ 1,709,651	\$ 69,830,771
LIABILITIES AND FUND EQUITY									
Liabilities:									
Accounts payable	\$ 548,333	\$ 262,763					\$ 811,096	\$ 4,863	\$ 815,959
Tax settlement pending				\$ 4,221,752			4,221,752		4,221,752
Fee settlement pending				131,683			131,683		131,683
Bonds, fines and costs pending				289,015			289,015		289,015
Due to other agencies				10,292,378			10,292,378		10,292,378
Notes payable						\$ 320,908	320,908		320,908
Capital improvement revenue bonds payable						2,580,000	2,580,000		2,580,000
General revenue promissory notes payable						1,820,000	1,820,000		1,820,000
Total Liabilities	<u>548,333</u>	<u>262,763</u>		<u>14,934,828</u>		<u>4,720,908</u>	<u>20,466,832</u>	<u>4,863</u>	<u>20,471,695</u>

WASHINGTON COUNTY, ARKANSAS
 COMBINED BALANCE SHEET - GOVERNMENTAL AND FIDUCIARY FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT -
 MODIFIED CASH BASIS
 DECEMBER 31, 2001

Exhibit A

	Governmental Fund Types			Fiduciary Fund Type Agency	Account Groups		Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service		General Fixed Assets	General Long- Term Debt	Primary Government December 31, 2001		Reporting Entity December 31, 2001
LIABILITIES AND FUND EQUITY (Continued)									
Fund Equity:									
Investment in general fixed assets					\$41,174,551		\$41,174,551	\$ 379,242	\$41,553,793
Fund balances:									
Reserved:									
Debt service			\$ 404,287				404,287		404,287
Boat safety	\$ 34,362						34,362		34,362
Federal drug forfeitures	68,320						68,320		68,320
Unreserved:									
Designated for Amendment 59 lawsuit settlement	735,491						735,491		735,491
Designated for excess commissions settlement	799,803						799,803		799,803
Undesignated	538,141	\$ 3,899,333					4,437,474	1,325,546	5,763,020
Total Fund Equity	<u>2,176,117</u>	<u>3,899,333</u>	<u>404,287</u>		<u>41,174,551</u>		<u>47,654,288</u>	<u>1,704,788</u>	<u>49,359,076</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,724,450</u>	<u>\$ 4,162,096</u>	<u>\$ 404,287</u>	<u>\$ 14,934,828</u>	<u>\$41,174,551</u>	<u>\$ 4,720,908</u>	<u>\$68,121,120</u>	<u>\$ 1,709,651</u>	<u>\$69,830,771</u>

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

WASHINGTON COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types			Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Primary Government Year Ended December 31, 2001		Reporting Entity Year Ended December 31, 2001
REVENUES						
Intergovernmental revenues - state	\$ 1,785,997	\$ 2,913,262		\$ 4,699,259	\$ 330,154	\$ 5,029,413
Intergovernmental revenues - federal	18,945	795,702		814,647		814,647
Property taxes	4,505,882	518,091		5,023,973	1,165,275	6,189,248
Sales taxes	4,092,227	1,452,561		5,544,788		5,544,788
Fines, forfeitures and costs	913,931		\$ 304,386	1,218,317		1,218,317
Investment income	198,363	262,739	18,224	479,326	67,382	546,708
Officers' fees	321,639	815,098		1,136,737		1,136,737
Rent	128,820			128,820		128,820
Jail fees	786,757			786,757		786,757
Emergency 911 fees		1,251,107		1,251,107		1,251,107
Treasurer's commission	150,585			150,585		150,585
Collector's commission	761,204			761,204		761,204
Taxes apportioned - Assessor's salary and expense	832,185			832,185		832,185
Other	569,696	740,215		1,309,911	22,212	1,332,123
TOTAL REVENUES	15,066,231	8,748,775	322,610	24,137,616	1,585,023	25,722,639
Less: Treasurer's commission	58,464	27,748	1,023	87,235	4,810	92,045
NET REVENUES	15,007,767	8,721,027	321,587	24,050,381	1,580,213	25,630,594

WASHINGTON COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2001

Exhibit B

	Governmental Fund Types			Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Primary Government Year Ended December 31, 2001		Reporting Entity Year Ended December 31, 2001
EXPENDITURES						
Current:						
General government	\$ 5,182,050	\$ 196,847		\$ 5,378,897		\$ 5,378,897
Law enforcement	8,950,685	419,649		9,370,334		9,370,334
Highways and streets		5,269,760		5,269,760		5,269,760
Public safety	554,648	1,151,798		1,706,446		1,706,446
Sanitation	168,097			168,097		168,097
Health	14,381	83,274		97,655		97,655
Social services		149,680		149,680		149,680
Library					\$ 1,481,631	1,481,631
Total Current	<u>14,869,861</u>	<u>7,271,008</u>		<u>22,140,869</u>	<u>1,481,631</u>	<u>23,622,500</u>
Capital outlay	506,588	2,649,402		3,155,990	34,038	3,190,028
Debt service:						
Bond principal			\$ 145,000	145,000		145,000
Bond interest and fiscal charges			134,961	134,961		134,961
Principal reduction on note payable	55,792			55,792		55,792
Interest reduction on note payable	9,778	30,663		40,441		40,441
Payments on juvenile detention loan	10,000			10,000		10,000
TOTAL EXPENDITURES	<u>15,452,019</u>	<u>9,951,073</u>	<u>279,961</u>	<u>25,683,053</u>	<u>1,515,669</u>	<u>27,198,722</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(444,252)</u>	<u>(1,230,046)</u>	<u>41,626</u>	<u>(1,632,672)</u>	<u>64,544</u>	<u>(1,568,128)</u>

WASHINGTON COUNTY, ARKANSAS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2001

Exhibit B

	Governmental Fund Types			Totals (Memorandum Only)	Component Unit County Library Board	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Primary Government Year Ended December 31, 2001		Reporting Entity Year Ended December 31, 2001
OTHER FINANCING SOURCES (USES)						
Transfers in		\$ 91,372		\$ 91,372		\$ 91,372
Transfers out	\$ (91,372)			(91,372)		(91,372)
Amendment 59 lawsuit	(1,219,582)	(278,636)		(1,498,218)	\$ (214,346)	(1,712,564)
Payments for reappraisal	(499,107)			(499,107)		(499,107)
Loan proceeds	376,700	1,820,000		2,196,700		2,196,700
Loan issuance cost		(40,453)		(40,453)		(40,453)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,433,361)</u>	<u>1,592,283</u>		<u>158,922</u>	<u>(214,346)</u>	<u>(55,424)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(1,877,613)</u>	<u>362,237</u>	<u>\$ 41,626</u>	<u>(1,473,750)</u>	<u>(149,802)</u>	<u>(1,623,552)</u>
FUND BALANCES - JANUARY 1	4,032,771	3,558,055	362,661	7,953,487	1,475,348	9,428,835
Residual equity transfer in	20,959			20,959		20,959
Residual equity transfer out		(20,959)		(20,959)		(20,959)
FUND BALANCES - DECEMBER 31	<u><u>\$ 2,176,117</u></u>	<u><u>\$ 3,899,333</u></u>	<u><u>\$ 404,287</u></u>	<u><u>\$ 6,479,737</u></u>	<u><u>\$ 1,325,546</u></u>	<u><u>\$ 7,805,283</u></u>

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

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

Discretely presented component unit

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

Related Organizations Excluded from the Reporting Entity

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

B. Basis of Presentation - Fund Accounting

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

Governmental Funds

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

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

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

Fiduciary Fund

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.

Account Groups

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

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

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. All funds are accounted for using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Their revenues are recognized when collected rather than when earned. Expenditures are recognized when paid rather than when incurred except for the recording of liabilities paid with funds available at year-end. General Fixed Assets and General Long-Term Debt are included as account groups.

D. Fixed Assets

1. Fixed Assets - Primary Government

General fixed assets purchased are recorded as expenditures at the time of purchase. Such assets excluding infrastructure assets are capitalized at cost in the general fixed assets group of accounts. Gifts or contributions or general fixed assets purchased at nominal sums are generally recorded in the general fixed assets group of accounts at fair market value at the time received. Infrastructure assets, such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and other elements of public domain are not reported in the general fixed assets group of accounts. Such assets are immovable and of value only to the County. No depreciation has been provided on general fixed assets. Interest incurred during construction is not capitalized.

2. Fixed Assets - Component Unit

Upon the 1999 dissolution of the Ozarks Regional Library, the Washington County Library Board received seventy percent of the dissolved organization's assets. Assets have been included as component unit fixed assets based on a combination of historical and estimated costs. Fixed assets purchased through the County claim process are capitalized at the time of purchase. Such assets are capitalized at cost in the component unit investment in general fixed asset account group.

E. Property Taxes

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

F. Investments

Certificates of deposit are reported at cost.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. Fund Equity

Fund Balance -

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

H. Budgetary Controls

1. Legal Requirements

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

2. Accounting

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

The following table reflects budget versus actual comparisons by fund for the year ended December 31, 2001:

Fund	Budgeted Revenues and Other Financing Sources	Actual Revenues and Other Financing Sources	Excess	Appropriations and Other Financing Uses	Actual Expenditures and Other Financing Uses	Excess
General	\$ 17,403,725	\$ 15,442,931	\$ (1,960,794)	\$ 19,024,586	\$ 17,262,080	\$ 1,762,506
Special Revenue:						
Road	6,808,175	5,772,718	(1,035,457)	8,264,538	7,846,515	418,023
HIV Clinic	154,000	135,174	(18,826)	187,294	83,274	104,020
Juvenile/Thoroughcare Grant		814	814			
Community Partnership		2,303	2,303		2,765	(2,765)
TEA Coalition	88,349	114,701	26,352	111,035	111,032	3
9-1-1	1,303,000	1,300,631	(2,369)	1,439,896	1,304,575	135,321
Sheriff Communications	144,000	179,652	35,652	220,000	212,482	7,518
Juvenile Council		155	155			

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Budgetary Controls (Continued)

2. Accounting (Continued)

Fund	Budgeted Revenues and Other Financing Sources	Actual Revenues and Other Financing Sources	Excess	Appropriations and Other Financing Uses	Actual Expenditures and Other Financing Uses	Excess
Special Revenue: (Continued)						
Circuit Clerk Support Cost	\$ 58,000	\$ 39,809	\$ (18,191)	\$ 48,932	\$ 48,549	\$ 383
Recorder's Cost	340,000	725,440	385,440	348,215	199,633	148,582
Treasurer's Automation		291	291	9,000	6,512	2,488
Law Enforcement Grants	297,057	280,168	(16,889)	396,028	211,668	184,360
Victim's Assistance Program	78,734	32,309	(46,425)	77,991	73,339	4,652
Drug Court Grant	154,576	64,332	(90,244)	154,576	108,895	45,681
Rural Community Grant	42,940	43,811	871	72,940	42,623	30,317
Community Care Foundation Grants	18,300	18,320	20	18,300	18,300	
Collector's Automation	78,407		(78,407)	70,566		70,566
County Clerk's Recorder Cost		35,828	35,828			
Court Automation		2,319	2,319			

I. Cash Equivalents

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

NOTE 2: Memorandum Totals

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

NOTE 3: Public Fund Deposits and Investments

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

(A) Information disclosing whether deposits are:

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

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 3: Public Fund Deposits and Investments (Continued)

(B) Information disclosing whether investments are:

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

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

NOTE 4: Legal or Contractual Provisions for Deposits and Investments

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

NOTE 5: Fund Presentation

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

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

NOTE 6: Changes in General Fixed Assets

	Balance January 1, as Previously Reported	Restatement Adjustment	Balance January 1, 2001 as Restated	Cash Additions	Other Additions	Deletions	Balance December 31, 2001
Land	\$ 2,082,996	\$ (47,300)	\$ 2,035,696	\$ 63,754			\$ 2,099,450
Buildings	24,913,859	(34,410)	24,879,449	90,468			24,969,917
Equipment	13,525,231	(1,342,967)	12,182,264				12,182,264
Construction in progress	7,536	(7,536)		3,001,768	\$ 671,296	\$ 1,750,144	1,922,920
Totals	\$ 40,529,622	\$ (1,432,213)	\$ 39,097,409	\$ 3,155,990	\$ 671,296	\$ 1,750,144	\$ 41,174,551

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 7: Changes in Component Unit Fixed Assets

	Balance January 1, as Previously Reported	Cash Additions	Other Additions	Deletions	Balance December 31, 2001
Buildings	\$ 125,430	\$ 34,038			\$ 159,468
Equipment	219,774				219,774
Totals	<u>\$ 345,204</u>	<u>\$ 34,038</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 379,242</u>

NOTE 8: Compensated Absences

Compensated absences do vest or accumulate. Accruals for compensated absences have not been reflected in the accompanying financial statements. The amount accumulated was not material.

NOTE 9: Long-Term Debt

General long-term debt at December 31, 2001 is comprised of the following:

	December 31, 2001
County Ordinance No. 99-28 authorized an issue of bonds designated "Washington County, Arkansas Capital Improvement Revenue Bonds (Juvenile Detention Center Project), Series 1999" in the amount of \$2,850,000, bearing interest at 4% - 5.20% per annum, with scheduled maturities on August 1st in each of the years 2000 through 2014.	\$ 2,580,000
County Ordinance No. 01-14 authorized the issuance and sale of General Revenue Promissory Notes (Road Equipment Project) Series 2001 for the purchase of road equipment in the amount of \$1,820,000, bearing interest at 3.4% - 3.850% per annum, with scheduled maturities on May 1, 2002 and 2003, with a balloon payment on May 1, 2004.	1,820,000
County Ordinance No. 01-3 approved a closed end line of credit, with a principal amount not to exceed \$191,497, pursuant to Amendment Seventy-Eight, for financing for law enforcement vehicles in the amount of \$234,962.82, bearing interest at 4.95% per annum, with accrued interest and principal paid monthly on the amount of the outstanding principal balance until December 31, 2003.	179,171
County Ordinance No. 01-3 approved a closed end line of credit, with a principal amount not to exceed \$191,497, pursuant to Amendment Seventy-Eight. General equipment was financed for \$141,737, bearing interest at 4.00% per annum, with accrued interest paid monthly on the outstanding principal balance until December 31, 2001, at which time principal and interest payments shall be paid on a monthly basis until December 31, 2003.	141,737
Total Debt	<u>\$ 4,720,908</u>

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 10: Changes in General Long-Term Debt

The following is a summary of transactions of the County for the year ended December 31, 2001:

	2001
General Long-Term Debt at January 1	\$ 2,755,000
Additions:	
Capital improvement notes for road equipment	1,820,000
Note payable for law enforcement vehicles	234,963
Note payable for general equipment	141,737
Deletions:	
Bonds retired	(145,000)
Juvenile detention loan payments	(10,000)
Juvenile detention loan abatement by Act 1468 of 2001	(20,000)
Note payments for law enforcement vehicles	(55,792)
General Long-Term Debt at December 31	\$ 4,720,908

NOTE 11: Debt Service Requirements to Maturity

Annual requirements to amortize outstanding bonded debt are as follows:

Juvenile Detention Center Revenue Bonds

Years Ending December 31	December 31, 2001		
	Principal	Interest	Total
2002	\$ 150,000	\$ 126,680	\$ 276,680
2003	155,000	120,155	275,155
2004	160,000	113,335	273,335
2005	170,000	106,135	276,135
2006	175,000	98,315	273,315
2007 through 2014	1,770,000	433,580	2,203,580
Totals	2,580,000	998,200	3,578,200

Capital Improvement Notes for Road Equipment

2002	145,000	66,578	211,578
2003	150,000	61,413	211,413
2004	1,525,000	29,356	1,554,356
Totals	1,820,000	157,347	1,977,347

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 11: Debt Service Requirements to Maturity (Continued)

<u>Juvenile Detention Center Revenue Bonds</u> Years Ending December 31	December 31, 2001		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Note Payable for Law Enforcement Vehicles</u>			
2002	\$ 87,342	\$ 6,998	\$ 94,340
2003	<u>91,829</u>	<u>2,513</u>	<u>94,342</u>
Totals	<u>179,171</u>	<u>9,511</u>	<u>188,682</u>
<u>Note Payable for General Equipment</u>			
2002	69,454	4,405	73,859
2003	<u>72,283</u>	<u>1,576</u>	<u>73,859</u>
Totals	<u>141,737</u>	<u>5,981</u>	<u>147,718</u>
Grand Total	<u>\$ 4,720,908</u>	<u>\$ 1,171,039</u>	<u>\$ 5,891,947</u>

The reserve in the Juvenile Detention Center Debt Service Revenue Fund is \$404,287 as of December 31, 2001.

The County is in compliance with all significant limitations and restrictions contained in the bond indenture and financing agreements.

NOTE 12: Issuance of Long-term Debt

During 1999, pursuant to the Constitution and laws of the State of Arkansas, including particularly Title 14, Chapter 164, Subchapter 4 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation"), codified at 14-164-401 through 14-164-418, the Washington County Quorum Court enacted County Ordinance No. 99-28 authorizing the issuance of Capital Improvement Revenue Bonds (Juvenile Detention Center Project), Series 1999 in the principal amount of \$2,850,000, bearing interest rates from 4% to 5.2%, with scheduled maturities on August 1st in each of the years 2000 through 2014. These bonds were issued to construct an approximately 18,000 square foot detention center with 36 beds to house juvenile offenders; the detention center total estimated project cost is \$3,200,000.

The bonds are to be paid from Pledged Revenues as defined in the enacting ordinance. The Pledged Revenues are a special revenue source and mean all revenues received by the County that are derived from payment of fines (including fines in the nature of restitution) and court costs collected by the Chancery Court, Juvenile Division, and the Circuit Court in criminal matters, that remain after the payment of prior claims that the county is legally obligated to make from such funds (the "Prior Claims"). The Pledged Revenues shall not be deemed to be general revenues of the County and shall be deposited into a special fund created for this purpose. The bonds are not general obligation of the County and shall never give rise to a charge against the County's general credit or taxing power. However, due to the unique financing of these bonds by the pledging of general revenues of the county, the public benefit portion of the debt and the remote probability of the county defaulting on these bonds, they have been included in the General Long-Term Debt Account Group on the Combined Balance Sheet in accordance with Governmental Accounting Standards Board Statement on Long-term Liabilities.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 13: Legal Debt Limit - Tax Secured Bond Issues

The County is subject to a constitutional limitation for bonded indebtedness equal to ten percent (10%) of the total assessed value for tax purposes of real and personal property as determined by the last tax assessment. At December 31, 2001, the legal debt limit for the County was \$137,327,099. There were no property tax secured bond issues.

NOTE 14: Federal Funds Program Compliance

A separate report was issued for the Washington County, Arkansas federal programs for 2001. No material instances of noncompliance were reported in the aforementioned report.

NOTE 15: Self-Insured Health Benefit

Washington County entered into a retention and liability agreement with Arkansas Blue Cross and Blue Shield, A Mutual Insurance Company, for the calendar year 2001. The intent of this agreement is for Arkansas Blue Cross and Blue Shield to provide health benefits for covered Washington County employees. Washington County will pay the cost of health claims to Blue Cross and Blue Shield, plus an administrative fee, which is 10.6% of paid health claims and 11.7% of paid dental claims. The maximum liability is \$1,371,101, based on current variables. The large claim pool is \$60,000 per covered person per policy year. Therefore, Blue Cross and Blue Shield has effectively agreed to not bill the County for paid claims in excess of \$60,000 per covered person per policy year.

NOTE 16: Commitments

The County entered into a new 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 are two payments during 2001 for \$41,592 each with the remainder of the contract to be paid in thirty-four installments of \$68,142 each.

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

<u>Year</u>	<u>Amount</u>
2002	\$ 817,704
2003	817,704
2004	681,420
Total	\$ 2,316,828

NOTE 17: Prior Year Restatement

The General Fixed Assets account group of the primary government was restated at January 1, 2001 in the amount of \$(1,432,213) in order to reflect the fixed assets of the County according to the County's fixed asset record and for items retired from service.

WASHINGTON COUNTY, ARKANSAS
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NOTE 18: Subsequent Events

A. Sales Tax Levy

On March 5, 2002, Washington County citizens passed two (2) one-quarter (1/4%) sales tax levies. One levy began July 1, 2002, for the purpose of bond debt repayment. The other levy began May 1, 2002, as a general sales tax intended to pay additional bond debt and operational costs of the Courts/Sheriff facility.

B. Sales and Use Tax Bond Issue

On March 26, 2002, Washington County Quorum Court authorized the issuance of Sales and Use Tax Bonds in an amount not to exceed \$23,750,000. The bonds are to be repaid with a one-quarter percent (1/4%) sales tax levy adopted March 5, 2002. Subsequently, the County issued a capital improvement bond of \$22,200,000 for the purpose of acquiring, constructing and equipping an integrated County facility comprised of a jail, courtroom, sheriff's offices, dispatch center impounded property building and related facilities. To date the County is in Phase I of the construction of the jail complex with a completion date of December 2004 and a projected cost of \$22,741,960.

C. Revenue Bond Issue

Resolution No. 2002-2, adopted January 10, 2002, authorized the issuance of \$300,000,000 of revenue bonds for securing and developing industry within Washington County. These bonds are to be retired by a lease-rental plan with Genova Arkansas I. The bonds are special obligation bonds of the County and do not constitute an indebtedness of the County within any Constitutional or statutory limitation, but are payable solely from lease-rentals of certain properties, and are secured by a statutory mortgage lien on the same. The County has thereby waived the payment of property taxes by Genova Arkansas for ten years and has authorized payment in lieu of taxes.

NOTE 19: Related Party Transactions

County Ordinance No. 1999-5, authorized the County Road Department to continue purchasing parts and supplies from Earvel E. Fraley, Justice of the Peace, d/b/a E&E Parts. During 2001 the County disbursed \$29,043 to E&E Parts.

County Ordinance No. 2000-5, authorized the County to lease real estate from Chancery/Circuit Judge Mary Ann Gunn. During 2001, the County paid Judge Gunn \$37,430 for the lease of a building, which houses the Public Defender's Office.

County Ordinance No. 2001-2 authorized the County to conduct business with the Bank of Fayetteville and Community Bank because Justice of the Peace Frank Kelly serves on the Board of Directors of the Bank of Fayetteville and Justice of the Peace Joyce Bunch serves on the Board of Directors of Community Bank and is president of the Elkins branch.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
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NOTE 20: 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. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year. The County made an insurance settlement of \$52,505 in excess of insurance coverage during 1999.

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 \$250,000 per case with an annual aggregate of \$250,000. 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 participates in the Secondary Loss Fund that provides additional coverage of \$250,000 to the annual aggregate.

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.

WASHINGTON COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
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NOTE 21: Arkansas Public Employees Retirement System

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

Funding Policy. PERS has contributory and non-contributory plans. Contributory members are required by code to contribute 6% of their salary. Each participating employer is required by code to contribute at a rate established by the Board of Trustees of the system based on the annual actuarial valuation. The current employer rate is 8% of annual covered payroll. The County's contributions to PERS for the years ending December 31, 2001, 2000 and 1999 were \$823,520, \$674,495 and \$552,181, respectively, equal to the required contributions for each year.