

**KAUFMAN COUNTY, TEXAS**  
**ANNUAL FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**KAUFMAN COUNTY, TEXAS  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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## **INTRODUCTORY SECTION**

**KAUFMAN COUNTY, TEXAS**  
**DIRECTORY OF OFFICIALS**

**Commissioners' Court:**

County Judge	Mr. Wayne Gent
Commissioner of Precinct #1	Mr. Jerry Rowden
Commissioner of Precinct #2	Mr. Ray Clark
Commissioner of Precinct #3	Mr. Kenneth Schoen
Commissioner of Precinct #4	Mr. Jim Deller

**Justices of the Peace:**

Precinct #1	Mr. Johnny Perry
Precinct #2	Mr. Don Cates
Precinct #3	Mr. Mike Smith
Precinct #4	Mr. Johnny Adams

**Constables:**

Precinct #1	Mr. Shelley Featherston
Precinct #2	Mr. Joe Don Law
Precinct #3	Mr. Lowrie Sanders
Precinct #4	Mr. Kenneth Garvin

**86<sup>th</sup> Judicial District of the State of Texas:**

District Judge	Mr. Howard Tygrett
County Auditor	Mr. Hal D. Jones

**KAUFMAN COUNTY, TEXAS**

**DIRECTORY OF OFFICIALS**

**Continued**

**422<sup>nd</sup> Judicial District of the State of Texas:**

District Judge	Mr. B. Michael Chitty
Criminal District Attorney	Mr. Rick Harrison
District Clerk	Ms. Sandra Featherston
Chief Adult Probation Officer	Mr. Ben Carmona
Chief Juvenile Probation Officer	Ms. Laura Peace

**Officials of Kaufman County:**

County Court-at-Law Judge	Mr. Erleigh Norville-Wiley
County Court-at-Law Judge #2	Mr. David Lewis
County Clerk	Ms. Laura Hughes
County Sheriff	Mr. David Byrnes
County Tax Assessor-Collector	Mr. Dick Murphy
County Treasurer	Mr. Johnny Countryman
County Veterans Service Officer	Mr. Don Stoy
County Health Officer	Dr. William J. Fortner
Indigent Health Care Officer	Ms. Vickki Gerner
Public Works Coordinator	Ms. Kathy Morris
Fire Marshall	Mr. Larry Ewing
Purchasing Agent	Mr. Jack Sebastian

## **FINANCIAL SECTION**

# HENRY & PETERS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
INDEPENDENT AUDITORS' REPORT

The Honorable Commissioners' Court of Kaufman County  
Kaufman County, Texas

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kaufman 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of September 30, 2008, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2009 on our consideration of Kaufman County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion & Analysis on pages 2 through 7, and the required supplementary information on pages 28 through 31, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kaufman County, Texas' basic financial statements. The unaudited statistical data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The unaudited statistical data listed has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Henry E. Peters, P.C.*

Tyler, Texas  
March 18, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of Kaufman County (the County) for the fiscal year ended September 30, 2008. This analysis is designed to focus on current activities, resulting changes and currently known facts. Please consider the information presented here, in conjunction with the transmittal letter, financial statements and related footnotes.

### FINANCIAL HIGHLIGHTS

The assets of the County exceeded its liabilities at the close of the year by \$16,129,693 (net assets). The balance of unrestricted net assets at year-end was \$6,173,580.

- Total net assets increased by \$236,893.
- The County's total liabilities decreased by \$41,910 during the fiscal year.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$7,285,721, a decrease of \$1,043,942 in comparison with the prior year. The total fund balance is available for spending at the government's discretion (unreserved fund balance).
- At fiscal year-end, unreserved fund balance for the General Fund was \$2,846,115 which represents 8.1% of total General Fund expenditures.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Kaufman County's basic financial statements. The financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information.

**1) Government-wide financial statements.** These statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities with the difference between the two reported as *net assets*. Over time, increases and decreases may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include general government, public safety and highways and streets.

The government-wide financial statements can be found on pages 8-9 of this report.

**2) Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes or objectives. Kaufman County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County's funds can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near term inflows and outflows of*

*spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *government funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Kaufman County maintains 67 individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Road and Bridge Fund, both of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 10-13 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources are not available to support the County's own programs.

The fiduciary fund financial statements can be found on page 14 of this report.

**3) Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-27.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of Kaufman County, assets exceeded liabilities by \$16,129,693 as of September 30, 2008.

The County's investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 52% of net assets, an increase of 4% over the prior year. These assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets increased \$669,733 (net) while current and other assets decreased \$474,751. Cash and investment balances decreased slightly, primarily due to the County's utilization of a portion of the prior year's cash reserve to fund increased costs such as fuel, utilities and other cost increases. Long-term liabilities decreased from prior year by \$286,517, due primarily to the pay down of previously incurred debt, offset by increases for accrued compensated absences and an increase in capital leases for Road and Bridge equipment.

**Governmental activities.** Governmental activities increased the County's net assets by \$236,893. The increase from prior year is due to factors primarily related to the growth in the county's tax base. Accordingly, County revenues increased by \$4,688,251 due largely to the increase in tax base and to the receipt of grant funds for the repair of roads and bridges damaged during some wide-spread flooding in the summer of 2008.

<b>Kaufman County's Net Assets</b>		
	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
Current and other assets	\$ 9,726,381	\$ 10,201,132
Capital assets	30,996,883	30,327,149
Total assets	<u>40,723,264</u>	<u>40,528,281</u>
Long-term liabilities	22,696,007	22,982,524
Other liabilities	1,897,564	1,652,957
Total liabilities	<u>24,593,571</u>	<u>24,635,481</u>
Net assets:		
Invested in capital assets, net of related debt	8,450,053	8,099,081
Restricted for:		
Debt Service	269,319	860,383
Capital Projects	1,236,741	1,397,002
Unrestricted	6,173,580	5,536,334
Total net assets	<u><u>\$ 16,129,693</u></u>	<u><u>\$ 15,892,800</u></u>

<b>Kaufman County's Changes in Net Assets</b>		
	<b>Governmental Activities 2008</b>	<b>Governmental Activities 2007</b>
<b>REVENUES</b>		
General revenues:		
Property taxes	\$ 32,181,789	\$ 28,712,693
Fees, fines and charges for service	10,567,807	10,637,181
Grants and contributions	1,089,457	1,158,569
Investment income	340,349	467,927
Miscellaneous	2,281,617	1,511,852
Gain on disposal of capital assets	749,725	34,271
Total revenues	<u>47,210,744</u>	<u>42,522,493</u>
<b>EXPENSES</b>		
General government	\$ 15,309,467	\$ 12,407,093
Public safety and corrections	15,565,376	12,647,977
Judicial	4,272,250	4,237,109
Infrastructure and environmental services	8,630,825	6,078,345
Health and human services	1,958,846	1,821,733
Interest and fiscal charges	961,925	1,025,224
Community service	275,162	276,081
Total expenses	<u>46,973,851</u>	<u>38,493,562</u>
<b>INCREASE IN NET ASSETS</b>	236,893	4,028,931
<b>NET ASSETS, BEGINNING</b>	15,892,800	7,428,398
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>-</u>	<u>4,435,471</u>
<b>NET ASSETS, ENDING</b>	<u><u>\$ 16,129,693</u></u>	<u><u>\$ 15,892,800</u></u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Kaufman County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

*Governmental funds.* The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. Such information is useful in assessing Kaufman County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Kaufman County. At the end of the fiscal year, unreserved total fund balance of the General Fund was \$2,846,115. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved total fund balance represents 8.1%, of total General Fund expenditures.

The fund balance of the General Fund decreased by \$1,207,777 during the fiscal year. Key factors of the decrease are due to the general growth of the County and increases in costs primarily in the areas of Public Safety and Capital Outlay. These increases resulted from additional personnel costs and the purchase of capital assets for future expansion of County facilities. An additional pervasive increase in costs related to the significant increase in fuel costs during the year. General fund revenues increased by \$2,431,484, while expenditures increased by \$6,176,315.

The General Road and Bridge Fund had an ending fund balance of \$88,963. The reporting requirements under GASB 34 require that the General Road and Bridge Fund be reported separately from the other four road and bridges funds if it qualifies as a Major Fund. The General Road and Bridge Fund is typically not expected to carry a large fund balance, since it functions mainly as a pass-through fund to intake Road and Bridge taxes and other revenues and pass them on to the individual Road and Bridge precinct funds. Refer to Note 8 on page 23 for more details of transfers between funds.

### General Fund Budgetary Highlights

Differences between the actual and the final amended budget were significant (\$1,005,819 less than budgeted). This is briefly summarized as follows:

- The growth of the County slowed, resulting in less than anticipated increases in fines, fees and charges for services.
- Negative variances between actual and budget were noted in several expenditure categories, most notably in Capital Outlay and Financial Administration, as the County purchased additional property in two precincts to prepare for future relocation needs.

### CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** Kaufman County's investment in capital assets for its governmental activities as of fiscal year end was \$30,996,883 (net of accumulated depreciation), an increase of only \$669,733 from the prior year. The increase primarily represents the purchase of land in two precincts for future relocation of maintenance barns and other County facilities. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, roads, bridges and office furniture and equipment.

**Kaufman County's Capital Assets**

	<b>Capital Assets 2008</b>	<b>Capital Assets 2007</b>
Land	\$ 1,105,998	\$ 193,625
Construction in progress	-	-
Buildings, improvements, FF& E	32,630,139	32,079,059
Infrastructure	12,147,226	12,147,226
Machinery and equipment	8,975,869	8,090,399
	<u>54,859,232</u>	<u>52,510,309</u>
Less: accumulated depreciation	(23,862,349)	(22,183,160)
Total capital assets, net	<u>\$ 30,996,883</u>	<u>\$ 30,327,149</u>

The County had the following additions to fixed assets:

Land	\$ 1,010,309	\$ -
Construction in progress	-	-
Buildings	-	37,684
Purchase of new vehicles	1,081,451	1,401,224
Purchase of road and bridge equipment	1,331,644	486,162
Furniture and fixtures	571,815	1,058,465

**Long-term debt.** At the end of the fiscal year, the County had total debt outstanding of \$22,696,007, which is a decrease of \$286,517 from prior year.

**Kaufman County's Outstanding Debt**

	<b>2008</b>	<b>2007</b>
Certificates of obligation	\$ 19,310,000	\$ 20,465,000
Notes payable	389,640	564,323
Compensated absences	1,255,174	948,080
Capital leases	1,741,193	1,005,121
Total Outstanding Debt	<u>\$ 22,696,007</u>	<u>\$ 22,982,524</u>

State statutes limit the amount of general obligation debt that a county may issue to 10% of its total assessed valuation. The current debt limit for Kaufman County is \$699,999,469, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 6 on page 23.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- In December 2007, the County entered into an interlocal agreement with the City of Terrell, Texas, to participate in a newly created Tax Increment Financing Reinvestment Zone ("TIF"). In order to encourage accelerated development and redevelopment of the TIF properties, the County agreed to dedicate 50% of the general fund tax revenues attributable to the future increases in taxable value of the such properties for a period not to exceed 30 years. The TIF funds will be used to provide funds for public infrastructure. The TIF agreement has no effect on the 2008 financial statements, and the effect for 2009 will not be material. However, over the life of the TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.
- Estimated revenue for fiscal year 2009 is \$37,102,192 for the General Fund and estimated expenditures are \$35,773,241. The total tax rate was decreased from \$.5615 to \$.5565.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Kaufman County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor's Office, 3003 S. Washington, Kaufman, TX 75142.

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2008**

	<b>Primary Government</b>
	<b>Governmental</b>
	<b>Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,077,429
Investments	3,470,000
Taxes receivable, net of allowance for uncollectibles	977,587
Other receivables, net of allowance for uncollectibles	164,133
Restricted cash	37,232
Capital assets, net:	
Not subject to depreciation	1,105,998
Subject to depreciation	29,890,885
Total Assets	\$ 40,723,264
 <b>LIABILITIES</b>	
Accounts payable	\$ 1,021,221
Accrued liabilities	876,343
Long-term liabilities:	
Portion payable within one year:	
Compensated absences payable	376,552
Capital leases	1,100,882
Notes payable	187,780
Certificates of obligation payable	1,210,000
Portion payable after one year:	
Compensated absences payable	878,622
Capital leases	640,311
Notes payable	201,860
Certificates of obligation payable	18,100,000
Total Liabilities	\$ 24,593,571
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 8,450,053
Restricted for:	
Debt service	269,319
Capital projects	1,236,741
Unrestricted	6,173,580
Total Net Assets	\$ 16,129,693

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Program Revenues			Net Expense and	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets Primary Governmental Activities
<b>Functions/Programs</b>					
Primary Government:					
Governmental activities:					
General government	\$ 15,309,467	\$ 2,466,222	\$ 47,125	\$ -	\$ (12,796,120)
Public safety and corrections	15,565,376	1,765,675	235,814	207,751	(13,356,136)
Judicial	4,272,250	3,505,678	47,275	-	(719,297)
Community services	275,162	72,925	22,013	-	(180,224)
Infrastructure and environmental	8,630,825	2,757,307	-	-	(5,873,518)
Health and human services	1,958,846	-	529,479	-	(1,429,367)
Interest and fiscal charges	961,925	-	-	-	(961,925)
Total governmental activities	46,973,851	10,567,807	881,706	207,751	(35,316,587)
General Revenues:					
Property taxes					\$ 32,181,789
Investment income					340,349
Gain on disposal of capital assets					749,725
Miscellaneous					2,281,617
Total general revenues					35,553,480
Change in net assets					236,893
Net assets, beginning of year					15,892,800
Net assets, end of year					\$ 16,129,693

**KAUFMAN COUNTY, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2008**

	General	General Road & Bridge	Construction Projects	Other Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,144,850	\$ 53,587	\$ 9,598	\$ 2,906,626	\$ 5,114,661
Investments	1,560,000	-	1,175,000	735,000	3,470,000
Receivables:					
Taxes	2,142,760	317,179	-	-	2,459,939
Accounts receivable	164,133	-	-	-	164,133
Total Assets	\$ 6,011,743	\$ 370,766	\$ 1,184,598	\$ 3,641,626	\$ 11,208,733
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 524,363	\$ 3,294	\$ -	\$ 389,838	\$ 917,495
Accrued liabilities	759,274	-	-	122,975	882,249
Deferred revenues	1,844,759	278,509	-	-	2,123,268
Total Liabilities	3,128,396	281,803	-	512,813	3,923,012
Fund Balances:					
Reserved for:					
Debt service	-	-	-	269,319	269,319
Capital projects	37,232	-	1,184,598	14,911	1,236,741
Unreserved:					
Undesignated reported in:					
General fund	2,846,115	-	-	-	2,846,115
Special revenue fund	-	88,963	-	2,844,583	2,933,546
Total Fund Balances	2,883,347	88,963	1,184,598	3,128,813	7,285,721
Total Liabilities and Fund Balances	\$ 6,011,743	\$ 370,766	\$ 1,184,598	\$ 3,641,626	\$ 11,208,733

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE**  
**SHEET TO THE STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2008**

Amounts reported for governmental activities in the statement of net assets (page 8) are different because:

<b>Total Fund Balance - Governmental Funds (page 10)</b>	<b>\$ 7,285,721</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Governmental capital assets	\$ 54,859,232
Less: Accumulated depreciation	<u>(23,862,349)</u> 30,996,883
Some of the county's revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and therefore are not reported in the governmental funds.	
	640,916
Long-term liabilities, including certificates of obligation payable and compensated absences, are not due and payable in the current year and accordingly are not reported in the governmental funds.	
	(22,696,007)
Interest payable used in the county's governmental activities are not payable from current resources and therefore are not reported in the governmental funds.	
	<u>(97,820)</u>
<b>Net Assets of Governmental Activities (page 8)</b>	<b><u><u>\$16,129,693</u></u></b>

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	General	General Road & Bridge	Construction Projects	Other Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 26,091,299	\$ 3,870,710	\$ -	\$ 1,887,683	\$ 31,849,692
Fees, fines and charges for services	5,964,549	2,588,843	-	870,947	9,424,339
Intergovernmental	195,282	-	-	610,146	805,428
County matching funds	-	-	-	5,000	5,000
Miscellaneous	2,502,331	6,139	-	2,382,611	4,891,081
<b>Total Revenues</b>	<u>34,753,461</u>	<u>6,465,692</u>	<u>-</u>	<u>5,756,387</u>	<u>46,975,540</u>
<b>EXPENDITURES</b>					
Current:					
General government	10,769,598	-	-	967,700	11,737,298
Public safety and corrections	15,908,442	-	-	25,548	15,933,990
Judicial	4,117,522	-	-	131,290	4,248,812
Community service	-	-	-	189,488	189,488
Environmental service	1,189,481	164,767	-	6,458,839	7,813,087
Health and human service	688,567	-	-	1,010,758	1,699,325
Capital outlay	2,181,551	-	178,596	3,083,307	5,443,454
Debt service:					
Principal	194,892	-	-	1,155,000	1,349,892
Interest and fiscal charges	42,313	-	-	925,518	967,831
<b>Total Expenditures</b>	<u>35,092,366</u>	<u>164,767</u>	<u>178,596</u>	<u>13,947,448</u>	<u>49,383,177</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(338,905)</u>	<u>6,300,925</u>	<u>(178,596)</u>	<u>(8,191,061)</u>	<u>(2,407,637)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	-	-	-	7,154,227	7,154,227
Operating transfers out	(868,872)	(6,285,355)	-	-	(7,154,227)
Capital lease proceeds	-	-	-	1,363,695	1,363,695
<b>Total other financing sources (uses)</b>	<u>(868,872)</u>	<u>(6,285,355)</u>	<u>-</u>	<u>8,517,922</u>	<u>1,363,695</u>
<b>Net change in fund balance</b>	(1,207,777)	15,570	(178,596)	326,861	(1,043,942)
<b>Fund balance at beginning of year</b>	<u>4,091,124</u>	<u>73,393</u>	<u>1,363,194</u>	<u>2,801,952</u>	<u>8,329,663</u>
<b>Fund balance at end of year</b>	<u>\$ 2,883,347</u>	<u>\$ 88,963</u>	<u>\$ 1,184,598</u>	<u>\$ 3,128,813</u>	<u>\$ 7,285,721</u>

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balance - total governmental funds (page 12)		\$ (1,043,942)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	\$ 1,559,604	
Less: Current year depreciation	<u>(2,243,255)</u>	(683,651)
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year.		
		(307,094)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		243,203
Bad debt expense reported in the statement of activities as a result of the full accrual method of accounting is not reported as an expenditure in governmental funds.		
		75,475
The issuance of long-term debt (e.g., certificates of obligation, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt is an expenditure in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
		1,946,996
Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.		
		<u>5,906</u>
<b>Change in net assets of governmental activities (page 9)</b>		<u><u>\$ 236,893</u></u>

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**SEPTEMBER 30, 2008**

	Tax Assessor	Sheriff	District Clerk	County Clerk	District Attorney	Insurance	Employee Savings	Total
<b>ASSETS</b>								
Cash	\$2,038,141	\$326,052	\$ 931,667	\$ 179,386	\$ 198,053	\$ 40,929	\$ 298,413	\$4,012,641
Investments	-	-	3,056,361	615,716	-	-	-	3,672,077
Total Assets	<u>\$2,038,141</u>	<u>\$326,052</u>	<u>\$3,988,028</u>	<u>\$ 795,102</u>	<u>\$ 198,053</u>	<u>\$ 40,929</u>	<u>\$ 298,413</u>	<u>\$7,684,718</u>
<b>LIABILITIES</b>								
Due to other parties	\$2,038,141	\$326,052	\$3,988,028	\$ 795,102	\$ 198,053	\$ 40,929	\$ 298,413	\$7,684,718
Total Liabilities	<u>\$2,038,141</u>	<u>\$326,052</u>	<u>\$3,988,028</u>	<u>\$ 795,102</u>	<u>\$ 198,053</u>	<u>\$ 40,929</u>	<u>\$ 298,413</u>	<u>\$7,684,718</u>

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Kaufman County was incorporated in 1849 as a public corporation and political subdivision of the State of Texas. The Commissioners' Court is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services, among others, as authorized by the statutes of the State of Texas: general administration (Commissioners' Court, County Judge and County Clerk), judicial (Courts, District Clerk and Juries), legal (prosecutors, investigators and outside counsel), financial administration (County Auditor, Treasurer and Tax Assessor-Collector), public safety (Sheriff and other law enforcement officials), roads and bridges, assistance to indigent residents and County libraries. The financial statements of Kaufman County have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units.

**A. Reporting Entity**

In determining the financial reporting entity, Kaufman County, Texas complies with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and GASB Statement No. 39 "*Determining Whether Certain Organizations are Component Units*," and includes all component units of which the County appointed a voting majority of the units' board and the County is either able to impose its will on the unit, or a financial benefit-relationship or burden-relationship exists. Under these standards, the County has no component units which are required to be reported, discretely or blended, in combination with the primary government.

**B. Basis of Presentation**

The County complies with United States generally accepted accounting principles (GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

**GOVERNMENT-WIDE STATEMENTS**

The government-wide statements include the statement of net assets and the statement of activities, which display information about the County as a whole, excluding fiduciary activities. The effect of interfund activity has been removed from government-wide statements, but continues to be reflected on the fund statements. The statement of activities presents revenues and expenses by functional category, with revenues being designated as either program revenues or general revenues. *Program revenues* are further designated into the following categories: 1) fees, fines and charges for service and 2) grants and contributions that are restricted to certain programs or functions. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**FUND FINANCIAL STATEMENTS**

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The fund financial statements present information regarding the County's funds, including the fiduciary funds. Separate statements are presented for governmental and fiduciary fund types. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, expenditures and other financing sources and uses of funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Fund financial statements place emphasis on the County's major funds, which are determined through a formula comparison and/or specific designation by the County. The major funds are displayed in separate columns, and all other funds are combined into one column titled, "Other Governmental Funds."

(Continued)

KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**B. Basis of Presentation - Continued**

Major governmental funds reported by the County are:

**General Fund** – The General Fund is the operating fund of the County and is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes; fees, fines and forfeitures; intergovernmental revenue; and income derived from investment of available funds. Primary expenditures are for administrative, judicial and legal services and public safety.

**General Road and Bridge Fund** – The General Road and Bridge Fund accounts for resources used in the construction and maintenance of county roads and bridges. This fund also finances the activities of the County's four road and bridge precinct funds.

**Construction Projects Fund** – The Construction Projects Fund accounts for resources used to renovate the Courthouse and South Campus. This fund's primary revenue source is proceeds from sale of bonds, with its primary expenditures being capital outlay.

Fiduciary funds reported by the County are:

**Agency Funds** – Agency Funds are used to account for assets held by the County in a trustee capacity or as agent for individuals. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

**C. Basis of Accounting**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The full accrual basis of accounting means revenues are recognized in the accounting period for which they are earned, while expenses are recognized in the period incurred. A large portion of the County's revenues are derived from property taxes, which under accrual accounting are recorded in the fiscal year in which the taxes are levied.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Basis of accounting refers to the timing of recognition of revenue and expenditures in the financial statements, regardless of the measurement focus applied. All governmental funds are accounted for on a *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

(Continued)

**KAUFMAN COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

All Governmental and Agency Funds are accounted for using the *modified accrual basis of accounting*:

- a. Revenue is recognized when it becomes susceptible to accrual (both measurable and available as net current assets). For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Receivables which are measurable, but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Major revenue types which have been accrued are property taxes levied to finance the budget of the current fiscal period, income from the investment of available funds, intergovernmental revenue and charges for services.

- b. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule are: (1) principal and interest on general long-term debt are recognized when due and (2) expenditures for insurance and similar services are accounted for as expenditures in the period of acquisition.

**D. Budgetary Accounting**

The budget is prepared by the County Budget Officer (the County Judge) with the assistance of the staff of the County Auditor's office and is approved by the Commissioners' Court following a public hearing. The budgetary control is by line item within each fund. The budget may be amended by the Commissioner's Court. To transfer appropriations between line items, approval from the Court must be obtained. Annual appropriations lapse at fiscal year-end.

Since the financial statements are presented in accordance with GAAP, classification and recognition of revenues and expenditures could differ between presentation in the financial statements and presentation in the budget.

**E. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse September 30, and encumbrances at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

**F. Cash and Investments**

Cash and cash equivalents include amounts in demand deposits as well as short-term investments. From time to time, the County invests its available funds in time deposits and other short-term interest-bearing securities. Time deposits and securities having a maturity date of three months or less from the date of issuance are classified as cash equivalents, while those with a maturity of more than three months are classified as investments.

All investments of the County are made pursuant to the Texas Public Funds Investments Act. Investments at September 30, 2008 are stated at fair market value in accordance with provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," and consist of obligations that are fully insured by the State of Texas.

**G. Prepaid Items**

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid expenses on the government-wide financial statements and fund financial statements. The fund financial statements are offset by a reservation of fund balance which indicates they do not represent "available spendable resources."

(Continued)

**KAUFMAN COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**H. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than an adopted threshold and an estimated useful life in excess of one year. The thresholds adopted by the Commissioner's Court are as follows:

Land and land improvements	Capitalize all
Infrastructure	Capitalize all
Buildings and building improvements	\$50,000
Improvements other than buildings	\$5,000
Furniture and equipment	\$5,000

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized.

Property, plant, and equipment of the County are depreciated using the straight line method over the following estimated useful lives:

Buildings and building improvements	30 years
Furniture and equipment	3-15 years
Vehicles	5-10 years
Infrastructure	20 years

**I. Compensated Absences**

The County's permanent, full-time employees with less than 8 years of service accrue 6 2/3 hours of vacation per month; those with 8-19 years of service accrue 10 hours per month; and those with service of 20 years or greater accrue 13 1/3 hours per month. With limited exceptions, the maximum accrual is two, three or four weeks of vacation for the respective accrual categories. Upon termination from the County's employment, an employee is entitled to payment for total accrued, but unused vacation time. Therefore, vacation is expensed when accrued in the government-wide financial statements.

The County's permanent, full-time employees accrue sick leave at the rate of 8 hours per month to a maximum of 720 hours (90 days). Sick leave is paid to current employees if the employees are absent from work due to illness, injury or other situations requiring medical attention. An employee who leaves the County's employment for any reason other than retirement receives no compensation for accrued sick leave. Retiring employees who have at least 20 years of service are entitled to payment for up to 30 days of accrued sick leave, and the accrual is included in the government-wide financial statements.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences," no liability is recorded for nonvested rights to receive sick pay benefits. However, a liability is recognized for that portion of cumulative sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement.

**J. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**K. Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. The County levies taxes on or before the following September 30. They are due on October 1 and are delinquent after January 31.

Collections of property taxes and subsequent remittances to the proper entities are accounted for in the Tax Assessor-Collector's Agency Fund. Tax collections made for the County are distributed to the General and Road and Bridge (R&B) General Funds on a periodic basis throughout each month. This distribution is based upon the tax rate established for each fund by order of the Commissioners' Court for the tax year for which the collections are made.

The combined tax rate for the year ended September 30, 2008 was \$0.5615 per \$100 and was allocated as follows:

General Fund	\$ 0.4600
Debt Service Fund	0.0335
Road & Bridge Funds	<u>0.0680</u>
Total	<u>\$ 0.5615</u>

**L. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**M. Implementation of New Standards**

The County will implement the following standard in fiscal year 2009:

GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*," establishes standards for measurement, recognition and display of other postemployment benefits (OPEB) expense or expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers.

The County will implement the following standard in fiscal year 2011:

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

**NOTE 2. CASH AND INVESTMENTS**

The cash and investment policies of the County are governed by State statutes, Section 116.112 of the Local Government Code and Government Code Chapter 2256, Subchapters A and B. The County's policies governing bank deposits require depositories to be FDIC insured institutions and to fully collateralize all deposits in excess of FDIC insured limits.

**Cash**

All demand and time deposits were entirely covered by FDIC insurance or by collateral held by the County's agent in the County's name. The fair market value for cash is not materially different from reported amounts.

(Continued)

**KAUFMAN COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 2. CASH AND INVESTMENTS - CONTINUED**

**Investments**

Legal provisions generally permit the County to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, commercial paper, and other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, countries, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.

During the year ended September 30, 2008, all of the County's investments were invested with the State of Texas Local Government Investment Pool (TexPool), which is a public funds investment pool created by the Treasurer of the State of Texas. TexPool acts as custodian of investments purchased with local investment funds. Texpool investments are stated at amortized cost, which in most cases approximates the market value of the shares. The fair value of these investments at September 30, 2008 is shown below.

	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>	<u>Credit Risk</u>
TexPool	\$ 3,470,000	45	AAAm
Cash in bank	6,463,748	N/A	N/A
Portfolio weighted average maturity	<u>\$ 9,933,748</u>	45	

**NOTE 3. RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Receivables of the County consist of property taxes, fines and fees, and beverage tax. The County receives 10.71% of the beverage tax issued on mixed beverage and private club registrations. Beverage tax revenue is a small portion of the revenues for the County. Property taxes are the largest revenue producer for the County and are described above in Note 1 Summary of Significant Accounting Policies. The following is a summary of the receivables for the County's individual funds at September 30, 2008, per the government-wide statements, including the allowance for uncollectible accounts:

	<u>General</u>	<u>General Road &amp; Bridge</u>	<u>Total</u>
Property taxes receivable	\$ 2,122,767	\$ 317,179	\$ 2,439,946
Beverage taxes receivable	19,993	-	19,993
Fines and fees receivable	164,133	-	164,133
Allowance for uncollectibles	(1,282,453)	(199,899)	(1,482,352)
Net accounts receivable	<u>\$ 1,024,440</u>	<u>\$ 117,280</u>	<u>\$ 1,141,720</u>

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 4. CAPITAL ASSETS**

All capital assets are valued at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. Infrastructure assets are recorded at estimated acquisition costs by using indexes to discount estimated current replacement costs. Capital asset activity for the year ended September 30, 2008 is as follows:

	Balance 9/30/07	Additions	Disposals	Transfers	Adjustments	Balance 9/30/08
Governmental activities:						
Non-depreciable assets:						
Land	\$ 193,625	\$ 1,010,309	\$ (97,936)	\$ -	\$ -	\$ 1,105,998
Construction in progress	-	-	-	-	-	-
Total non-depreciable assets	193,625	1,010,309	(97,936)	-	-	1,105,998
Depreciable assets:						
Buildings	27,433,562	-	-	-	-	27,433,562
Infrastructure	12,147,226	-	-	-	-	12,147,226
Machinery	4,498,563	1,331,644	(842,165)	-	-	4,988,042
Vehicles	3,591,836	1,081,451	(685,460)	-	-	3,987,827
Furniture, fixtures, & equipment	4,645,497	571,815	(20,735)	-	-	5,196,577
Total depreciable assets	52,316,685	2,984,910	(1,548,360)	-	-	53,753,234
Less: accumulated depreciation	22,183,160	2,243,255	564,066	-	-	23,862,349
Total depreciable assets, net	30,133,525	741,655	(984,294)	-	-	29,890,885
Total capital assets	<u>\$30,327,150</u>	<u>\$ 1,751,964</u>	<u>\$ (1,082,230)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$30,996,883</u>

Depreciation expense for the year totaled \$2,243,255 and was charged to functions of the government-wide statement of activities as follows:

Governmental Activities:	
General Government	\$ 448,156
Judicial	52,255
Public Safety and Corrections	506,294
Infrastructure and Environmental	1,224,193
Community Services	12,357
Total depreciation expense	<u>\$ 2,243,255</u>

(Continued)

**KAUFMAN COUNTY, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2008**

**NOTE 5. LEASE OBLIGATIONS**

The County is a party in several lease agreements for equipment and vehicles. The terms of the agreements provide an option to purchase the equipment during or at the end of the lease term. During the year ended September 30, 2008, the County entered into seven new lease agreements classified as capital leases in addition to the fifteen other leases capitalized in prior years. The County obtained eight dump trucks, two motorgraders, and one haul truck in the current year. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards (SFAS) No. 13, "Accounting for Leases."

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 1,741,192
Less: Accumulated depreciation	<u>(580,123)</u>
Total	<u><u>\$ 1,161,069</u></u>

Depreciation expense for the year ended September 30, 2008 was \$209,183.

These leases, which totaled \$1,404,367, with related debt of \$1,741,192 at September 30, 2008, are recorded in the government-wide financial statements.

The following is a schedule of the future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments at September 30, 2008:

	<u>Year Ended September 30,</u>
2009	\$ 1,152,747
2010	123,910
2011	519,907
2012	33,439
2013	<u>-</u>
Total minimum lease payments	<u>1,830,003</u>
Less: amount representing interest	<u>(88,811)</u>
Present value of net minimum lease payments	<u><u>\$ 1,741,192</u></u>

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 6. LONG-TERM DEBT**

During the year ended September 30, 2008, the following changes occurred in long-term debt:

	Certificate of Obligation	Compensated Absences	Capital Leases	Notes Payable
Balance, October 1, 2007	\$ 20,465,000	\$ 948,080	\$ 1,005,121	\$ 564,323
Increases	-	307,094	1,363,695	-
Decreases	(1,155,000)	-	(627,623)	(174,683)
Balance, September 30, 2008	<u>\$ 19,310,000</u>	<u>\$ 1,255,174</u>	<u>\$ 1,741,193</u>	<u>\$ 389,640</u>
Amounts Due Within One Year	\$ 1,210,000	\$ 376,552	\$ 1,100,882	\$ 187,780

**Certificates of Obligation:**

\$22,000,000 Certificates of Obligation, Series 2002, dated June 15, 2002, annual maturities ranging from \$710,000 to \$1,725,000 through February 15, 2012; interest varies from 4.0% to 5.0% \$17,590,000

\$2,020,000 Texas Tax Note, Series 2006B, dated August 15, 2006, annual maturities ranging from \$300,000 to \$375,000 through February 15, 2012; interest payable semi-annually; interest rate of 4.22% 1,720,000

Total \$19,310,000

The Texas Tax Note, Series 2006B was issued for the purpose of constructing improvements to and equipping the Courthouse, Courthouse Annex, Old County Jail Buildings and to pay the issuance costs of the bond.

The annual requirements to amortize the Certificates of Obligation outstanding at September 30, 2008, are as follows:

<u>Year Ended September 30,</u>	<u>Principle</u>	<u>Interest</u>
2009	\$ 1,210,000	\$ 877,400
2010	1,270,000	827,091
2011	1,330,000	773,117
2012	1,385,000	714,884
2013	1,455,000	654,675
Thereafter	12,660,000	3,065,244
Total	<u>\$ 19,310,000</u>	<u>\$ 6,912,411</u>

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 7. CONTINGENT LIABILITIES**

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grants. In the opinion of the County's management, disallowed costs, if any, would not have a material effect on the County's financial position or results of operations.

The County is involved in certain legal actions and claims arising in the ordinary course of its operations. The County is aggressively defending these suits and believes that the losses, if any, resulting from such suits will not have a material impact on the County's financial position, results of operations, and cash flows in future years. Accordingly, no provision for such claims has been recorded in the County's financial statements.

**NOTE 8. INTERFUND ACTIVITY**

Interfund transfers for the fiscal year ending September 30, 2008 are summarized below:

<u>Operating Transfer From</u>	<u>Amount</u>	<u>Operating Transfer To</u>	<u>Explanation</u>
General Fund	\$ 868,872	Non-major Governmental Funds	Supplement fund sources
General Road & Bridge	6,285,355	Non-major Governmental Funds	Supplement fund sources
<b>Total Transfers</b>	<b><u><u>\$ 7,154,227</u></u></b>		

**NOTE 9. PENSION PLAN**

**Plan Description**

Kaufman County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employees' contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employees' accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 9. PENSION PLAN - CONTINUED**

**Funding Policy**

The employer has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS ACT, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 7.16% for the months of the accounting year in 2008, and 7.27% for the months of the accounting year in 2007.

The deposit rate payable by the employee members for calendar year 2008 is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Annual Pension Cost**

For the employer's accounting year ending September 30, 2008, the annual pension cost for the TCDRS plan for its employees was \$1,219,474, and the actual contributions were \$1,395,048.

**ACTUARIAL VALUATION INFORMATION**

Actual valuation date	12/31/2005	12/31/2006	12/31/2007
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period	20	20	20
Asset valuation method	Long-term appreciation with adjustment	Long-term appreciation with adjustment	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.50%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

(1) Includes inflation at the stated rate

The annual required contributions were actuarially determined as a percentage of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2005 and December 31, 2006, the basis of determining the contribution rates for calendar years 2007 and 2008. The December 31, 2007 actuarial valuation is the most recent valuation.

(Continued)

**KAUFMAN COUNTY, TEXAS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2008**

**NOTE 9. PENSION PLAN - CONTINUED**

**TREND INFORMATION FOR THE RETIREMENT PLAN  
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS**

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
September 30, 2006	\$ 927,196	100%	\$ -
September 30, 2007	\$ 1,055,700	100%	\$ -
September 30, 2008	\$ 1,219,474	100%	\$ -

**NOTE 10. RESTRICTED ASSETS**

The restricted cash balance of \$37,232 in the government-wide financial statements is restricted for levee construction and repair.

**NOTE 11. 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; injuries to employees; and natural disasters. The County maintains commercial insurance coverage for each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this commercial insurance coverage during the current fiscal year.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**KAUFMAN COUNTY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2005	\$ 19,365,639	\$ 20,867,853	\$ 1,502,214	92.80%	\$ 13,736,238	10.94%
12/31/2006	\$ 22,687,824	\$ 23,547,818	\$ 1,161,702	95.13%	\$ 14,521,315	8.00%
12/31/2007	\$ 26,035,422	\$ 27,656,343	\$ 1,620,921	94.14%	\$ 17,031,756	9.52%

(1) The annual covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.

**KAUFMAN COUNTY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 26,120,915	\$ 26,120,915	\$ 26,091,299	\$ (29,616)
Fees, fines and charges for services	6,394,800	6,529,800	5,964,549	(565,251)
Intergovernmental	202,250	202,250	195,282	(6,968)
Miscellaneous	2,556,114	2,272,056	2,502,331	230,275
Total Revenues	<u>35,274,079</u>	<u>35,125,021</u>	<u>34,753,461</u>	<u>(371,560)</u>
<b>EXPENDITURES</b>				
Current:				
General administration	8,150,380	8,411,223	7,785,781	625,442
Judicial	2,384,680	2,346,182	2,283,439	62,743
Legal	2,037,263	2,019,230	1,834,083	185,147
Elections	373,326	291,458	490,209	(198,751)
Financial administration	1,066,177	1,035,078	2,493,608	(1,458,530)
Public facilities	589,928	494,260	579,189	(84,929)
Public safety	16,996,798	16,951,603	15,908,442	1,043,161
Environmental protection	384,725	356,695	366,758	(10,063)
Health and welfare	817,290	823,999	688,567	135,432
Conservation	263,335	261,418	243,534	17,884
Debt Service:				
Principal	21,309	20,800	194,892	(174,092)
Interest and fiscal charges	-	-	42,313	(42,313)
Capital outlay	2,427,049	1,446,161	2,181,551	(735,390)
Total Expenditures	<u>35,512,260</u>	<u>34,458,107</u>	<u>35,092,366</u>	<u>(634,259)</u>
Excess (Deficiency) of Revenues Over Expenditures	(238,181)	666,914	(338,905)	(1,005,819)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	(928,872)	(790,976)	(868,872)	(77,896)
Total Other Financing Uses	<u>(928,872)</u>	<u>(790,976)</u>	<u>(868,872)</u>	<u>(77,896)</u>
Deficiency of revenues over other sources and expenditures	<u>\$ (1,167,053)</u>	<u>\$ (124,062)</u>	(1,207,777)	<u>\$ (1,083,715)</u>
Fund balance at beginning of year			<u>4,091,124</u>	
Fund balance at end of year			<u>\$ 2,883,347</u>	

**KAUFMAN COUNTY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL ROAD AND BRIDGE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 3,836,400	\$ 3,836,400	\$ 3,870,710	\$ 34,310
Fees, fines and charges for services	3,006,000	3,006,000	2,588,843	(417,157)
Miscellaneous	3,372	3,372	6,139	2,767
Total Revenues	<u>6,845,772</u>	<u>6,845,772</u>	<u>6,465,692</u>	<u>(380,080)</u>
<b>EXPENDITURES</b>				
Current:				
Roads and bridges	187,728	187,728	164,767	22,961
Total Expenditures	<u>187,728</u>	<u>187,728</u>	<u>164,767</u>	<u>22,961</u>
Excess of Revenues Over Expenditures	6,658,044	6,658,044	6,300,925	(357,119)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	(6,658,044)	(6,658,044)	(6,285,355)	372,689
Total Other Financing Uses	<u>(6,658,044)</u>	<u>(6,658,044)</u>	<u>(6,285,355)</u>	<u>372,689</u>
Excess of revenues over other financing sources and expenditures	<u>\$ -</u>	<u>\$ -</u>	15,570	<u>\$ 15,570</u>
Fund balance at beginning of year			<u>73,393</u>	
Fund balance at end of year			<u>\$ 88,963</u>	

**KAUFMAN COUNTY, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL**  
**CONSTRUCTION PROJECTS FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Capital Outlay	<u>1,190,000</u>	<u>1,190,000</u>	<u>178,596</u>	<u>1,011,404</u>
Total Expenditures	<u>1,190,000</u>	<u>1,190,000</u>	<u>178,596</u>	<u>1,011,404</u>
Deficiency of Revenues Over Expenditures	(1,190,000)	(1,190,000)	(178,596)	1,011,404
<b>OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deficiency of revenues over other financing sources and expenditures	<u>\$(1,190,000)</u>	<u>\$ (1,190,000)</u>	(178,596)	<u>\$ 1,011,404</u>
Fund balance at beginning of year			<u>1,363,194</u>	
Fund balance at end of year			<u>\$ 1,184,598</u>	

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# HENRY & PETERS, PC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Commissioners' Court of Kaufman County  
Kaufman, Texas

We have audited the basic financial statements of Kaufman County, Texas as of and for the year ended September 30, 2008, and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with U. S. generally accepted auditing standards 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 Kaufman County's internal control over financial reporting 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 Kaufman County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kaufman County's internal control over financial reporting.

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 U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kaufman County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commissioners' Court, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties; however, this report is a matter of public record and its distribution is not limited.

*Henry E. Peters, P.C.*

Tyler, Texas  
March 18, 2009

**UNAUDITED STATISTICAL DATA**

**KAUFMAN COUNTY, TEXAS**  
**CURRENT TAX COLLECTION HISTORY**  
**LAST TEN YEARS**  
**(Unaudited)**

**GENERAL**

<b>Tax Roll Year</b>	<b>Budget Year</b>	<b>Gross County Valuation</b>	<b>Net Taxable Valuation</b>
2007	2008	\$ 6,420,108,253	\$ 5,649,952,348
2006	2007	5,772,539,864	5,030,828,350
2005	2006	6,188,986,520	4,533,989,636
2004	2005	5,302,335,538	3,994,187,374
2003	2004	4,736,905,067	3,596,644,408
2002	2003	3,967,823,787	2,935,154,377
2001	2002	3,089,203,925	2,613,617,963
2000	2001	2,629,477,261	2,032,117,293
1999	2000	2,414,701,961	1,915,820,485
1998	1999	2,222,040,379	1,760,171,312

**ROAD AND BRIDGE MAINTENANCE**

<b>Tax Roll Year</b>	<b>Budget Year</b>	<b>Gross County Valuation</b>	<b>Net Taxable Valuation</b>
2007	2008	\$ 6,420,108,253	\$ 5,649,952,348
2006	2007	5,772,539,864	5,030,828,350
2005	2006	6,188,986,520	4,533,989,636
2004	2005	5,302,335,538	3,994,187,374
2003	2004	4,736,905,067	3,596,644,408
2002	2003	3,967,823,787	2,935,154,377
2001	2002	3,089,203,925	2,613,617,963
2000	2001	2,629,477,261	2,032,117,293
1999	2000	2,414,701,961	1,915,820,485
1998	1999	2,222,040,379	1,760,171,312

**GENERAL**

<b>Tax Rate Per \$100</b>	<b>Total Tax Levy</b>	<b>Collections of Current Taxes</b>	<b>Percentage of Levy Collected Currently</b>
\$ 0.49350	\$ 27,671,799	\$ 26,677,443	96.41%
0.49420	24,692,111	23,692,632	95.95%
0.47270	21,432,169	20,538,569	95.83%
0.47270	18,880,524	18,112,086	95.93%
0.51930	18,677,374	17,629,574	94.39%
0.48559	14,252,816	13,753,968	96.50%
0.36524	9,545,978	9,196,595	96.34%
0.35050	7,122,571	6,856,187	96.26%
0.37050	7,098,115	6,780,119	95.52%
0.37100	6,530,236	6,246,170	95.65%

**ROAD AND BRIDGE MAINTENANCE**

<b>Tax Rate Per \$100</b>	<b>Total Tax Levy</b>	<b>Collections of Current Taxes</b>	<b>Percentage of Levy Collected Currently</b>
\$ 0.06800	\$ 3,823,592	\$ 3,686,270	96.41%
0.06800	3,403,543	3,271,485	96.12%
0.06500	2,947,093	2,821,359	95.73%
0.07000	2,795,931	2,682,137	95.93%
0.07000	2,517,651	2,376,411	94.39%
0.07000	2,054,608	1,982,697	96.50%
0.10929	2,856,423	2,751,878	96.34%
0.11400	2,316,614	2,229,972	96.26%
0.11400	2,184,035	2,086,191	95.52%
0.10399	1,830,402	1,750,780	95.65%

