

KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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**KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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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. J.C. Jackson |
| 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. Bryant Morris |

86th 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

422nd 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. Vicki Gerner |
| Public Works Coordinator | Ms. Kathy Morris |
| Fire Marshall | Mr. Larry Ewing |
| Purchasing Agent | Mr. Jack Sebastian |

FINANCIAL SECTION

HENRY & PETERS, PC

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, 2009, 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, 2009, 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 July 14, 2010 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 33 through 37, 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 introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Henry & Peter, P.C.

Tyler, Texas
July 14, 2010

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, 2009. 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 \$14,197,522 (net assets). The balance of unrestricted net assets at year-end was \$1,784,234.

- Total net assets decreased by \$1,932,171, resulting from prior period adjustments of \$529,928 to reclassify certain funds from governmental to internal service and/or trust and agency, as appropriate. Additionally, the remaining decrease of \$1,402,243 results from the excess of expenses over revenues for the year.
- The County's total liabilities increased by \$2,587,790 during the fiscal year, which is comprised primarily of a \$736,954 liability for Other Post Employment Benefits and amounts financed for the purchase of machinery and equipment.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$5,487,895, a decrease of \$1,797,826 in comparison with the prior year. The total fund balance is available for spending at the government's discretion (unreserved fund balance).
- The County has accrued an estimated liability of \$800,000 for certain legal actions and claims arising in the ordinary course of operations.

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.

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*.

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 Funds, Road and Bridge Fund and Construction Projects Fund, all 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 funds. A budgetary comparison statement has been provided for the General Funds to demonstrate compliance with this budget.

Proprietary funds. Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. The Internal Service Fund (a component of proprietary funds) is used to report activities that provide supplies and services for other programs and activities, such as the County's self-insurance program. Because these services predominantly benefit governmental rather than business-type functions, the Internal Service Fund is reported with governmental activities in the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. These activities are excluded from the County's other financial statements since the County cannot use these assets to finance its operations. The accounting used for fiduciary funds is much like that used for proprietary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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.

4) Required supplementary information. Required Supplementary Information is in addition to the basic financial statements and accompanying notes and presents a budgetary comparison schedule, which includes the original and final amended budget and actual figures.

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 \$14,197,522 as of September 30, 2009.

The County's investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 80% of net assets, an increase of 27% 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 \$2,193,568 (net) while current and other assets decreased \$1,674,080. Cash and investment balances decreased \$1,537,949, 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 increased from the prior year by \$2,234,078, due primarily to the increase in capital leases for Road and Bridge equipment.

Governmental activities. Governmental activities decreased the County's net assets by \$1,402,243. The decrease from prior year is due primarily to the \$736,954 liability recorded in the current year due to Other Post Employment Benefits. County revenues decreased by \$996,700 due primarily to the decrease in fee-producing activities throughout the County during the year. The reduction of such activities as plat fees for subdivisions and land sales affected the amounts of fee revenues generated for the year. There was a slight increase in property tax revenues reported and grants received, but other types of revenues were generally lower than the previous year.

Kaufman County's Net Assets

| | Governmental Activities 2009 | Governmental Activities 2008 |
|--|---|---|
| | <u> </u> | <u> </u> |
| Current and other assets | \$ 8,188,432 | \$ 9,726,381 |
| Capital assets | 33,190,451 | 30,996,883 |
| Total assets | <u>41,378,883</u> | <u>40,723,264</u> |
| Long-term liabilities | 24,930,085 | 22,696,007 |
| Other liabilities | 2,251,276 | 1,897,564 |
| Total liabilities | <u>27,181,361</u> | <u>24,593,571</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 11,283,420 | 8,450,053 |
| Restricted | 1,129,868 | 1,506,060 |
| Unrestricted | 1,784,234 | 6,173,580 |
| Total net assets | <u><u>\$ 14,197,522</u></u> | <u><u>\$ 16,129,693</u></u> |

Kaufman County's Changes in Net Assets

| | Governmental Activities 2009 | Governmental Activities 2008 |
|--|------------------------------------|------------------------------------|
| REVENUES | | |
| General revenues: | | |
| Property taxes | \$ 34,183,652 | \$ 32,181,789 |
| Fees, fines and charges for service | 8,452,257 | 10,567,807 |
| Grants and contributions | 1,997,802 | 1,089,457 |
| Investment income | 128,466 | 340,349 |
| Gain on disposal of capital assets | 38,191 | 2,281,617 |
| Miscellaneous | 1,413,676 | 749,725 |
| Total revenues | 46,214,044 | 47,210,744 |
| | | |
| | Governmental Activities 2009 | Governmental Activities 2008 |
| EXPENSES | | |
| General government | \$ 12,645,700 | \$ 15,309,467 |
| Public safety and corrections | 19,742,354 | 15,565,376 |
| Judicial | 5,443,339 | 4,272,250 |
| Community service | 224,425 | 275,162 |
| Infrastructure and environmental | 6,919,798 | 8,630,825 |
| Health and human services | 1,733,656 | 1,958,846 |
| Interest and fiscal charges | 907,015 | 961,925 |
| Total expenses | 47,616,287 | 46,973,851 |
| | | |
| (DECREASE) INCREASE IN NET ASSETS | (1,402,243) | 236,893 |
| | | |
| NET ASSETS, BEGINNING | 16,129,693 | 15,892,800 |
| PRIOR PERIOD ADJUSTMENT | (529,928) | - |
| | | |
| NET ASSETS, ENDING | \$ 14,197,522 | \$ 16,129,693 |

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 Funds include the chief operating funds of Kaufman County. At the end of the fiscal year, unreserved total fund balance of the General Funds was \$(29,919). As a measure of the General Funds' liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved total fund balance represents (0.09)% of total General Funds expenditures.

The fund balance of the General Funds decreased by \$2,913,266 during the fiscal year. Key factors of the decrease are due to the reduction of general revenues for the year, the initial recording of the liability for Other Post Employment Benefits, and a prior period adjustment to reclassify certain funds from governmental to internal service and/or trust and agency, as appropriate. General Funds revenues decreased by \$1,414,773, while expenditures decreased by \$736,769.

The General Road and Bridge Fund had an ending fund balance of \$168,607. The reporting requirements under GASB 34 require that the General Road and Bridge Fund be reported separately from the other four road and bridge 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.

The Construction Projects Fund had an ending fund balance of \$1,131,044 and qualifies as a Major Fund. The Construction Projects fund balance is significantly larger as a result of funding for large capital projects.

Other Nonmajor Funds do not meet the criteria of Major Funds and therefore are reported in a combined format and comprised of special revenue, capital projects, and debt service funds. The combined ending fund balance of these funds was \$4,218,163.

General Funds Budgetary Highlights

Differences between the actual and the final amended budget were significant (\$1,709,860 less than budgeted). This is briefly summarized as follows:

- The fee-producing activities of the County slowed, resulting in less than anticipated increases in fines, fees and charges for services.
- The reduction in revenues noted above were somewhat offset by the County’s ability to hold spending activities at a level below what was budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Kaufman County’s investment in capital assets for its governmental activities as of fiscal year end was \$33,190,451 (net of accumulated depreciation), an increase of \$2,193,568 from the prior year. The increase primarily represents the purchase of machinery and equipment in order to service the needs of the County. 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

| | Capital Assets 2009 | Capital Assets 2008 |
|--------------------------------|------------------------------------|------------------------------------|
| Land | \$ 1,226,333 | \$ 1,105,998 |
| Buildings, improvements, FF& E | 33,163,611 | 32,630,139 |
| Infrastructure | 12,147,226 | 12,147,226 |
| Machinery and equipment | 12,478,449 | 8,975,869 |
| | <u>59,015,619</u> | <u>54,859,232</u> |
| Less: accumulated depreciation | (25,825,168) | (23,862,348) |
| Total capital assets, net | <u><u>\$ 33,190,451</u></u> | <u><u>\$ 30,996,884</u></u> |

The County had the following additions to fixed assets:

| | | |
|---------------------------------------|------------|--------------|
| Land | \$ 120,335 | \$ 1,010,309 |
| Purchase of new vehicles | 1,493,917 | 1,081,451 |
| Purchase of road and bridge equipment | 2,876,288 | 1,331,644 |
| Furniture and fixtures | 534,322 | 571,815 |

Long-term debt. At the end of the fiscal year, the County had total debt outstanding of \$24,967,195, which is an increase of \$2,271,188 from the prior year. The increase is due primarily to capital leases entered into for the purchase of fixed assets, the adoption of GASB 45 related to other post employment benefits, and the legal accrual for potential legal liability.

Kaufman County's Outstanding Debt

| | <u>2009</u> | <u>2008</u> |
|----------------------------|---------------------|----------------------|
| Certificates of obligation | \$18,100,000 | \$ 19,310,000 |
| Notes payable | 274,259 | 389,640 |
| Compensated absences | 1,486,100 | 1,255,174 |
| Capital leases | 3,532,772 | 1,741,193 |
| OPEB | 736,954 | - |
| Legal accrual | 800,000 | - |
| Total Outstanding Debt | <u>\$24,930,085</u> | <u>\$ 22,696,007</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 \$697,428,186, which is significantly in excess of the County's outstanding debt.

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 funds 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 had an immaterial effect on the 2009 financial statements, and the effect for 2010 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.
- During the 2009 year, the County entered into a separate agreement with the City of Forney to participate in its TIF as well, utilizing the same funding structure as the Terrell TIF noted above. There was no effect on the 2009 financial statements, and the effect for 2010 will not be material. However, as with the Terrell TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.
- Estimated revenue for fiscal year 2010 is \$34,670,975 for the General Funds and estimated expenditures are \$34,649,444. The total tax rate remains the same, at \$.5565 per \$100.

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, 2009

| | | <u>Primary Government</u> <u>Governmental</u> <u>Activities</u> |
|--|----|---|
| ASSETS | | |
| Cash and cash equivalents | \$ | 5,478,939 |
| Investments | | 1,724,000 |
| Taxes receivable, net of allowance for uncollectibles | | 985,493 |
| Capital assets, net: | | |
| Not subject to depreciation | | 1,226,333 |
| Subject to depreciation | | 31,964,118 |
| Total Assets | \$ | <u>41,378,883</u> |
| LIABILITIES | | |
| Accounts payable | \$ | 1,098,959 |
| Accrued liabilities | | 1,152,317 |
| Long-term liabilities: | | |
| Portion payable within one year: | | |
| Compensated absences payable | | 445,830 |
| Capital leases | | 1,455,650 |
| Notes payable | | 274,260 |
| Certificates of obligation payable | | 1,270,000 |
| Portion payable after one year: | | |
| Compensated absences payable | | 1,040,270 |
| Capital leases | | 2,077,121 |
| Other post employment benefits payable | | 736,954 |
| Legal liability accrual | | 800,000 |
| Certificates of obligation payable | | 16,830,000 |
| Total Liabilities | \$ | <u>27,181,361</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ | 11,283,420 |
| Restricted | | 1,129,868 |
| Unrestricted | | 1,784,234 |
| Total Net Assets | \$ | <u>14,197,522</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net Expense and</u> |
|----------------------------------|----------------------|-------------------------|----------------------|----------------------|------------------------------|
| | | <u>Fees, Fines, and</u> | <u>Operating</u> | <u>Capital</u> | <u>Changes in Net Assets</u> |
| | | <u>Charges for</u> | <u>Grants and</u> | <u>Grants and</u> | <u>Primary Government</u> |
| | | <u>Services</u> | <u>Contributions</u> | <u>Contributions</u> | <u>Governmental</u> |
| | | | | | <u>Activities</u> |
| Primary Government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 12,645,700 | \$ 2,236,874 | \$ 76,306 | \$ - | \$ (10,332,520) |
| Public safety and corrections | 19,742,354 | 1,825,517 | 968,116 | - | (16,948,721) |
| Judicial | 5,443,339 | 1,785,956 | 12,832 | - | (3,644,551) |
| Community services | 224,425 | 73,396 | 42,274 | - | (108,755) |
| Infrastructure and environmental | 6,919,798 | 2,530,514 | - | - | (4,389,284) |
| Health and human services | 1,733,656 | - | 898,274 | - | (835,382) |
| Interest and fiscal charges | 907,015 | - | - | - | (907,015) |
| Total governmental activities | <u>47,616,287</u> | <u>8,452,257</u> | <u>1,997,802</u> | <u>-</u> | <u>(37,166,228)</u> |
| Total Primary Government | <u>\$ 47,616,287</u> | <u>\$ 8,452,257</u> | <u>\$ 1,997,802</u> | <u>\$ -</u> | <u>\$ (37,166,228)</u> |
| General Revenues: | | | | | |
| | | | | | \$ 34,183,652 |
| | | | | | 128,466 |
| | | | | | 38,191 |
| | | | | | 1,413,676 |
| | | | | | <u>35,763,985</u> |
| | | | | | (1,402,243) |
| | | | | | 16,129,693 |
| | | | | | (529,928) |
| | | | | | <u>\$ 14,197,522</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2009

| | General Funds | General Road & Bridge | Construction Projects | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|--------------------------|--------------------------|---|--------------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,100,079 | \$ 129,322 | \$ 6,044 | \$ 4,241,994 | \$ 5,477,439 |
| Investments | 20,000 | - | 1,125,000 | 579,000 | 1,724,000 |
| Receivables: | | | | | |
| Taxes | 2,366,709 | 371,633 | - | - | 2,738,342 |
| Total Assets | <u>\$ 3,486,788</u> | <u>\$ 500,955</u> | <u>\$ 1,131,044</u> | <u>\$ 4,820,994</u> | <u>\$ 9,939,781</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Bank overdrafts | \$ - | \$ - | \$ - | \$ 32,703 | \$ 32,703 |
| Accounts payable | 486,593 | - | - | 443,532 | 930,125 |
| Accrued liabilities | 934,089 | - | - | 126,596 | 1,060,685 |
| Deferred revenues | 2,096,025 | 332,348 | - | - | 2,428,373 |
| Total Liabilities | <u>3,516,707</u> | <u>332,348</u> | <u>-</u> | <u>602,831</u> | <u>4,451,886</u> |
| Fund Balances: | | | | | |
| Restricted: | | | | | |
| Capital projects | - | - | 1,131,044 | (5,205) | 1,125,839 |
| Debt service | - | - | - | 95,661 | 95,661 |
| Total restricted | <u>-</u> | <u>-</u> | <u>1,131,044</u> | <u>90,456</u> | <u>1,221,500</u> |
| Unrestricted: | | | | | |
| Designated reported in: | | | | | |
| General funds | (29,919) | - | - | - | (29,919) |
| Special revenue funds | - | 168,607 | - | 4,127,707 | 4,296,314 |
| Total Fund Balances | <u>(29,919)</u> | <u>168,607</u> | <u>1,131,044</u> | <u>4,218,163</u> | <u>5,487,895</u> |
| Total Liabilities and Fund Balances | <u>\$ 3,486,788</u> | <u>\$ 500,955</u> | <u>\$ 1,131,044</u> | <u>\$ 4,820,994</u> | <u>\$ 9,939,781</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2009

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

| | |
|---|-----------------------------------|
| Total Fund Balance - Governmental Funds (page 10) | \$ 5,487,895 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | |
| Governmental capital assets | \$ 59,015,619 |
| Less: Accumulated depreciation | <u>(25,825,168)</u> 33,190,451 |
| 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 | |
| | 675,524 |
| Net other post employment benefits obligation in governmental activities does not require current financial resources and therefore are not reported in the governmental funds balance sheet. | |
| | (736,954) |
| 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 | |
| | (23,393,131) |
| Internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets. | |
| | (134,631) |
| Potential legal liability stemming from judgment that is not payable from current resources and therefore are not reported in the governmental funds. | |
| | (800,000) |
| 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>(91,632)</u> |
| Net Assets of Governmental Activities (page 8) | <u><u>\$14,197,522</u></u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

| | General | General Road & Bridge | Construction Projects | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------|--------------------------|---|--------------------------------|
| REVENUES | | | | | |
| Taxes | | | | | |
| Property taxes | \$ 27,297,498 | \$ 4,678,815 | \$ - | \$ 1,902,234 | \$ 33,878,547 |
| License and other fines | - | - | - | 37,217 | 37,217 |
| Fees, fines and charges for services | 4,545,032 | 2,413,914 | - | 1,456,094 | 8,415,040 |
| Intergovernmental | 773,301 | - | - | 1,224,501 | 1,997,802 |
| Investment income | 82,642 | 2,408 | - | 43,416 | 128,466 |
| Miscellaneous | 640,215 | 1 | - | 773,460 | 1,413,676 |
| Gain (loss) on sale of assets | - | - | - | 38,191 | 38,191 |
| Total Revenues | <u>33,338,688</u> | <u>7,095,138</u> | <u>-</u> | <u>5,475,113</u> | <u>45,908,939</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 10,219,882 | - | - | 204,443 | 10,424,325 |
| Public safety and corrections | 15,414,265 | - | - | 2,496,991 | 17,911,256 |
| Judicial | 5,247,369 | - | - | 102,127 | 5,349,496 |
| Community service | 189,916 | - | - | 16,050 | 205,966 |
| Infrastructure and environmental | 918,848 | 126,304 | - | 6,606,961 | 7,652,113 |
| Health and human service | 1,136,520 | - | - | 588,688 | 1,725,208 |
| Capital outlay | 1,193,068 | - | 53,554 | 3,934,486 | 5,181,108 |
| Debt service: | | | | | |
| Principal | - | - | - | 1,210,000 | 1,210,000 |
| Interest and fiscal charges | 35,729 | - | - | 877,474 | 913,203 |
| Total Expenditures | <u>34,355,597</u> | <u>126,304</u> | <u>53,554</u> | <u>16,037,220</u> | <u>50,572,675</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1,016,909)</u> | <u>6,968,834</u> | <u>(53,554)</u> | <u>(10,562,107)</u> | <u>(4,663,736)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Operating transfers in | - | - | - | 7,512,141 | 7,512,141 |
| Operating transfers out | (622,951) | (6,889,190) | - | - | (7,512,141) |
| Capital lease proceeds | - | - | - | 3,356,409 | 3,356,409 |
| Total other financing sources (uses) | <u>(622,951)</u> | <u>(6,889,190)</u> | <u>-</u> | <u>10,868,550</u> | <u>3,356,409</u> |
| Net change in fund balance | (1,639,860) | 79,644 | (53,554) | 306,443 | (1,307,327) |
| Fund balance at beginning of year | 2,883,347 | 88,963 | 1,184,598 | 3,128,813 | 7,285,721 |
| Prior period adjustment (See Note 1) | (1,273,406) | - | - | 782,907 | (490,499) |
| Fund balance at end of year | <u>\$ (29,919)</u> | <u>\$ 168,607</u> | <u>\$ 1,131,044</u> | <u>\$ 4,218,163</u> | <u>\$ 5,487,895</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

SEPTEMBER 30, 2009

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) \$(1,307,327)

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 | \$ 1,499,877 | |
| Less: Current year depreciation | <u>(2,198,771)</u> | (698,894) |

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. (230,926)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 305,105

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. (270,497)

Governmental funds report all payments to other post employment benefits as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered an expense. Any deficit amount is considered a liability. Change in net other post employment benefits obligation. (736,954)

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. 2,426,264

Internal service fund is used by management to charge the costs of health insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities. (95,202)

Potential legal expense stemming from judgment that is reported in the statement of activities and does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. (800,000)

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. 6,188

Change in net assets of governmental activities (page 9) \$ (1,402,243)

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2009**

| | Governmental Activities - Internal Service Funds |
|---------------------------|---|
| ASSETS | |
| Current Assets: | |
| Cash | \$ 1,500 |
| Total Current Assets | 1,500 |
| LIABILITIES | |
| Current Liabilities: | |
| Bank overdraft | 136,131 |
| Total Current Liabilities | 136,131 |
| NET ASSETS | |
| Unrestricted | (134,631) |
| Total Net Assets | \$ (134,631) |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009

| | Governmental Activities - Internal Service Funds |
|--|---|
| OPERATING REVENUES | |
| Premiums and reimbursements | <u>\$ 4,010,864</u> |
| Total Operating Revenues | <u>4,010,864</u> |
| OPERATING EXPENSES | |
| Insurance claims and administrative fees | <u>4,106,066</u> |
| Total Operating Expenses | <u>4,106,066</u> |
| Operating Loss | (95,202) |
| NON-OPERATING REVENUES | |
| Interest income and other | <u>-</u> |
| Loss before transfers | (95,202) |
| Transfers in | <u>-</u> |
| Change in net assets | <u>(95,202)</u> |
| Net Assets - September 30, 2008 | - |
| Prior period adjustment (See Note 1) | (39,429) |
| Net Assets - September 30, 2009 | <u><u>\$ (134,631)</u></u> |

**KAUFMAN COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2009**

| | Governmental Activities - Internal Service Funds |
|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received for premiums | \$ 4,010,864 |
| Cash paid to customers | <u>(4,106,066)</u> |
| Net cash used in operating activities | <u>(95,202)</u> |
| | |
| Net decrease in cash | (95,202) |
| | |
| Cash at beginning of year | (39,429) |
| Reclass of overdraft | <u>136,131</u> |
| | |
| CASH AT END OF YEAR | <u>\$ 1,500</u> |
| | |
| Reconciliation of operating income to net cash used by operating activities: | |
| Operating loss | <u>\$ (95,202)</u> |
| | |
| Net Cash Used In Operating Activities | <u>\$ (95,202)</u> |

KAUFMAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2009

| | <u>Total</u> |
|--------------------------|---------------------|
| ASSETS | |
| Cash | \$ 3,497,569 |
| Investments | 3,485,000 |
| Total Assets | <u>\$ 6,982,568</u> |
| | |
| LIABILITIES | |
| Vouchers payable | \$ 252,713 |
| Due to other governments | 1,686,791 |
| Other liabilities | 5,043,064 |
| Total Liabilities | <u>\$ 6,982,568</u> |

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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 FINANCIAL 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.

GOVERNMENTAL 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 Nonmajor Governmental Funds."
(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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.

Non-major funds include special revenue funds, capital project funds, and debt service funds.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. Internal Service funds are used to account for the financing of goods or services provided by one department or agency of the County to other County departments or agencies on a cost reimbursement basis.

The County has two proprietary funds which are classified as internal service funds: 1) The Insurance Fund is used to account for the County's group medical self-insurance program. Revenues are derived from County contributions, employee and retiree/COBRA premiums, investment of idle funds and stop loss collections. Expenses are for claims and administrative expenses. 2) The Payroll fund acts as an agent for the payroll processing of the County's departments. The fund operates as an agency fund, where liabilities are recorded when monies are received. However, this fund is the recipient of interest and incurs certain related expenses. The residual interest and related expenditures result in an equity balance which is inappropriate for agency funds recorded in the Fiduciary Statements.

The **Proprietary funds** are accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations (e.g. insurance payments).

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. The County has only agency funds which are used to account for assets held by the County as an agent for individuals, private organizations, other governments and other funds. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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.

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2009 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."

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 |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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, 2009 was \$0.5565 per \$100 and was allocated as follows:

| | |
|---------------------|------------------|
| General Fund | \$ 0.4470 |
| Debt Service Fund | 0.0315 |
| Road & Bridge Funds | <u>0.0780</u> |
| Total | <u>\$ 0.5565</u> |

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. For the classification of governmental fund balances, the County considers an expenditure to be made from the most restrictive first when more than one classification is available.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

M. 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.

N. Implementation of New Standards

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

GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions (“GASB 54”), 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.

GASB issued Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. This statement incorporates into GASB authoritative accounting literature and financial reporting guidance on related party transactions, going concern considerations and subsequent events previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature. The requirements of this statement are effective upon issuance and have no impact on the County’s financial statements.

O. Prior Period Adjustment

Some of the funds have been reclassified from governmental to internal service and/or trust and agency, as appropriate. Changes are reflected as prior period adjustments to fund balance.

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.

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.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 2. CASH AND INVESTMENTS - CONTINUED

Investments are categorized into these three categories of credit risk:

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

During the year ended September 30, 2009, 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, 2009 was \$1,784,000.

| | <u>Fair Value</u> | <u>Weighted Average Maturity (days)</u> | <u>Credit Risk</u> |
|--|---------------------|---|--------------------|
| TexPool | \$ 1,784,000 | 43 | AAAm |
| Cash in bank | <u>6,553,302</u> | N/A | N/A |
| Portfolio weighted average maturity | <u>\$ 8,337,302</u> | 43 | |

Credit risk – Credit risk is the risk that an issuer or other counter part to an investment will not fulfill its obligations. The County has limited credit risk, in conformance to state statutes and County ordinance, by investing in only the safest types of securities as permitted by the Public Funds Investment Act, using approved brokers and with different investment pools.

Inherent rate risk – Inherent rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The County utilizes two investment pools to diversify this risk.

Custodial credit risk – Custodial credit risk is the risk for deposits that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. At September 30, 2009, the carrying value of the County's bank deposits is \$5,478,939 and the bank balance is \$6,553,302.

Foreign currency risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The County's investment policy does not permit securities listed in foreign denominations. Consequently, the County is not exposed to foreign currency risk.

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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 the Summary of Significant Accounting Policies. The following is a summary of the receivables for the County's individual funds at September 30, 2009, per the government-wide statements, including the allowance for uncollectible accounts:

| | General | | Total |
|------------------------------|-------------------|-------------------|-------------------|
| | General | Road & Bridge | |
| Property taxes receivable | \$ 2,348,267 | \$ 371,633 | \$ 2,719,900 |
| Beverage taxes receivable | 18,442 | - | 18,442 |
| Allowance for uncollectibles | (1,509,996) | (242,853) | (1,752,849) |
| Net accounts receivable | <u>\$ 856,713</u> | <u>\$ 128,780</u> | <u>\$ 985,493</u> |

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, 2009 is as follows:

| | Balance 9/30/08 | Additions | Disposals | Balance 9/30/09 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental activities: | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 1,105,998 | \$ 120,335 | \$ - | \$ 1,226,333 |
| Construction in progress | - | - | - | - |
| Total non-depreciable assets | 1,105,998 | 120,335 | - | 1,226,333 |
| Depreciable assets: | | | | |
| Buildings | 27,433,562 | - | - | 27,433,562 |
| Infrastructure | 12,147,226 | - | - | 12,147,226 |
| Machinery | 4,988,042 | 2,876,288 | (88,400) | 7,775,930 |
| Vehicles | 3,987,827 | 1,493,917 | (779,225) | 4,702,519 |
| Furniture, fixtures & equipment | 5,196,577 | 534,322 | (850) | 5,730,049 |
| Total depreciable assets | 53,753,234 | 4,904,527 | (868,475) | 57,789,286 |
| Less: accumulated depreciation | 23,862,348 | 2,198,771 | (235,951) | 25,825,168 |
| Total depreciable assets, net | 29,890,886 | 2,705,756 | (632,524) | 31,964,118 |
| Total capital assets | <u>\$30,996,884</u> | <u>\$ 2,826,091</u> | <u>\$ (632,524)</u> | <u>\$33,190,451</u> |

Depreciation expense for the year totaled \$2,198,771 and was charged to functions of the government-wide statement of activities as follows:

| Governmental Activities: | |
|----------------------------------|---------------------|
| General Government | \$ 513,440 |
| Judicial | 48,233 |
| Public Safety and Corrections | 993,112 |
| Infrastructure and Environmental | 631,073 |
| Community Services | 12,913 |
| Total depreciation expense | <u>\$ 2,198,771</u> |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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, 2009, the County entered into nine new lease agreements classified as capital leases in addition to the twenty other leases capitalized in prior years. The County obtained eight dump trucks, three pieces of road repair equipment, and software and equipment for the Sheriff's department in the current year. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Asset: | |
| Machinery and equipment | \$ 3,532,772 |
| Less: Accumulated depreciation | <u>(805,883)</u> |
| Total | <u><u>\$ 2,726,889</u></u> |

Depreciation expense related to these leases for the year ended September 30, 2009 was \$805,883.

These leases, which totaled \$3,792,007, with related debt of \$3,532,771 at September 30, 2009, 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, 2009:

| <u>Year Ended September 30,</u> | | |
|---|----------------------------|--|
| 2010 | \$ 1,606,007 | |
| 2011 | 1,076,327 | |
| 2012 | 576,089 | |
| 2013 | 519,742 | |
| 2014 | 27,446 | |
| 2015 - 2019 | <u>57,903</u> | |
| Total minimum lease payments | 3,863,514 | |
| Less: amount representing interest | <u>(330,743)</u> | |
| Present value of net minimum lease payments | <u><u>\$ 3,532,771</u></u> | |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 6. LONG-TERM DEBT

During the year ended September 30, 2009, the following changes occurred in long-term debt:

| | Certificate of Obligation | Compensated Absences | OPEB Obligation | Capital Leases | Notes Payable | Legal Accrual |
|-----------------------------|---------------------------------|-------------------------|--------------------|---------------------|-------------------|-------------------|
| Balance, October 1, 2008 | \$ 19,310,000 | \$ 1,255,174 | \$ - | \$ 1,741,192 | \$ 389,640 | \$ - |
| Increases | - | 230,926 | 736,954 | 3,356,409 | 141,615 | 800,000 |
| Decreases | (1,210,000) | - | - | (1,564,830) | (256,995) | - |
| Balance, September 30, 2009 | <u>\$ 18,100,000</u> | <u>\$ 1,486,100</u> | <u>\$ 736,954</u> | <u>\$ 3,532,771</u> | <u>\$ 274,260</u> | <u>\$ 800,000</u> |
| Amounts Due Within One Year | \$ 1,270,000 | \$ 445,830 | \$ - | \$ 1,455,650 | \$ 274,260 | \$ - |

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% \$16,695,000

\$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% 1,405,000

Total \$18,100,000

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, 2009, are as follows:

| Year Ended September 30, | Principle | Interest |
|-----------------------------|----------------------|---------------------|
| 2010 | \$ 1,270,000 | \$ 827,091 |
| 2011 | 1,330,000 | 773,117 |
| 2012 | 1,385,000 | 714,884 |
| 2013 | 1,455,000 | 654,675 |
| 2014 | 1,135,000 | 600,369 |
| 2015 - 2019 | 6,620,000 | 2,088,000 |
| 2020 - 2022 | 4,905,000 | 376,873 |
| Total | <u>\$ 18,100,000</u> | <u>\$ 6,035,009</u> |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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 and appealing these suits; however, the County has accrued an estimated liability of \$800,000. Accordingly, a provision for such claims has been recorded in the County's government-wide financial statements and is expected to be liquidated with future, rather than existing, resources.

NOTE 8. INTERFUND ACTIVITY

Interfund transfers for the fiscal year ending September 30, 2009 are summarized below:

| <u>Operating Transfer From</u> | <u>Amount</u> | <u>Operating Transfer To</u> | <u>Explanation</u> |
|--------------------------------|----------------------------|-----------------------------------|-------------------------|
| General | \$ 622,951 | Other Nonmajor Governmental Funds | Supplement fund sources |
| General Road & Bridge | 6,889,190 | Other Nonmajor Governmental Funds | Supplement fund sources |
| Total Transfers | <u>\$ 7,512,141</u> | | |

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, 2009**

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 7.51% for the months of the accounting year in 2009, and 7.16% for the months of the accounting year in 2008.

The deposit rate payable by the employee members for calendar year 2009 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, 2009, the annual pension cost for the TCDRS plan for its employees was \$1,455,701, and the actual contributions were \$1,572,210.

ACTUARIAL VALUATION INFORMATION

| Actual valuation date | 12/31/2006 | 12/31/2007 | 12/31/2008 |
|--------------------------------|---|---|---|
| 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 | 7.1 | 7 | 8.5 |
| Asset valuation method | SAF: 10-yr smoothed value ESF: Fund value | SAF: 10-yr smoothed value ESF: Fund value | SAF: 10-yr smoothed value ESF: Fund value |
| Actuarial Assumptions: | | | |
| Investment return (1) | 8.00% | 8.00% | 8.00% |
| Projected salary increases (1) | 5.30% | 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, 2006 and December 31, 2007, the basis of determining the contribution rates for calendar years 2008 and 2007. The December 31, 2008 actuarial valuation is the most recent valuation.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

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, 2007 | \$ 1,055,700 | 100% | \$ - |
| September 30, 2008 | \$ 1,219,474 | 100% | \$ - |
| September 30, 2009 | \$ 1,455,701 | 100% | \$ - |

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Program Description

In addition to the pension benefits described in Note 9, as required by state law and defined by the County Policy, the County makes available healthcare benefits through the Texas Association of Counties Health and Employee Benefits Pool to all employees who retire from the County and who are receiving benefits from a County sponsored retirement program (TCDRS). The healthcare plan provides insurance to eligible retirees through the County's group health insurance plan, which covers both active and retired members, until age 65 when retirees become eligible and are required to enroll in Medicare Part B, at which time coverage supplements Medicare.

Current retirees in the health plan and at retirement, active employees that meet the conditions for retirement from TCDRS (age 60 and above with 8 years or more of service, 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more) are eligible to remain in the health plan at the age graded and gender distinct contribution rate for active and retiree participants. The County will cease to pay or provide this benefit should the retiree go to work for another employer that offers health insurance benefits.

Funding Policy

The County contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution rate of one-half (1/2) of the cost of health insurance per participant for those that retire with 10 to 19 years of service and 100% of the cost per participant for those that retire with 20 or more years of service. The County contributions to the plan for fiscal year 2009 were \$116,475. Current retirees with less than 20 years of service contribute to the Retiree Health Program with adjustments for age and gender. Monthly retiree contribution rate for fiscal year 2009 ranges from \$268.15 to \$942.02 for health insurance depending on gender and age. Retirees and current employees with 10 to 19 years of service are financially responsible for one-half of the monthly premiums.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 10. OTHER POST EMPLOYMENT BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The County had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2008 as required by GASB. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

| | |
|---|------------|
| Annual required contribution (ARC) | \$ 853,429 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost (expense) | 853,429 |
| Contributions made | (116,475) |
| Change in OPEB obligation | 736,954 |
| Net OPEB obligation (asset) - beginning of year | - |
| Net OPEB obligation (asset) - end of year | \$ 736,954 |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 was as follows:

| Fiscal Year | Annual OPEB Costs | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------|-------------------------|--|---------------------------|
| 2009 | \$ 853,429 | 14% | \$ 736,954 |

Funded Status and Funding Progress

As of December 31, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$6,000,769 all of which was unfunded. There are no valuation assets available to offset the liabilities of the plan.

Actuarial values of the program involve estimates of the value of reported amounts and assumption of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information (only one year presented in this year of implementation) that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. As the County chose to not establish an irrevocable trust, plan assets will always be reported under GASB Statement 45 as zero.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2009**

NOTE 10. OTHER POST EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008, actuarial valuation, the projected unit credit, level percent of payroll cost method was used. The actuarial assumptions include a 4.50% investment rate of return (compounded annually net after investment expenses) and an annual healthcare cost trend of 10.0% initially, reduced by decrements to an ultimate rate of 4.50% after 11 years. Rates include a 3% inflation assumption. The County's unfunded actuarial accrued liability is being amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with the GASB requirements.

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.

NOTE 12. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

U.S. generally accepted accounting principles require disclosure, as part of the Combined Statements - Overview, of certain information concerning individual funds including:

A deficit fund balance existed at year end in the following:

General Funds:

- Indigent Health Care
- Solid Waste Convenience Station
- Emergency Shelter
- General Right of Way

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REQUIRED SUPPLEMENTARY INFORMATION

**KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

| 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) |
|--------------------------------|--|--|------------------------------------|--------------------------|---|---|
| 12/31/2006 | \$ 22,687,824 | \$ 23,849,526 | \$ 1,161,702 | 95.13% | \$ 14,521,315 | 8.00% |
| 12/31/2007 | \$ 26,035,420 | \$ 27,970,301 | \$ 1,934,881 | 93.08% | \$ 17,031,756 | 11.36% |
| 12/31/2008 | \$ 27,730,502 | \$ 32,166,197 | \$ 4,435,695 | 86.21% | \$ 20,331,014 | 21.82% |

(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 FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

| Fiscal Year | 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 (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|----------------|--------------------------------|--|--|------------------------------------|--------------------------|-------------------------------------|---|
| 2009 | 12/31/2008 | \$ - | \$ 6,000,769 | \$ 6,000,769 | 0.00% | \$ 20,331,014 | 29.52% |

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, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|--------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 28,009,900 | \$ 28,009,900 | \$ 27,297,498 | \$ (712,402) |
| Fees, fines and charges for services | 7,827,170 | 7,806,600 | 4,545,032 | (3,261,568) |
| Intergovernmental | 432,605 | 141,492 | 773,301 | 631,809 |
| Investment income | 301,400 | 301,400 | 82,642 | (218,758) |
| Miscellaneous | 1,072,698 | 1,019,500 | 640,215 | (379,285) |
| Total Revenues | <u>37,643,773</u> | <u>37,278,892</u> | <u>33,338,688</u> | <u>(3,940,204)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 11,072,548 | 10,921,686 | 10,221,086 | 700,600 |
| Public safety | 16,550,552 | 16,512,296 | 15,413,061 | 1,099,235 |
| Judicial | 5,585,269 | 5,559,479 | 5,247,369 | 312,110 |
| Community services | 213,800 | 212,800 | 189,916 | 22,884 |
| Infrastructure and environmental services | 995,476 | 955,839 | 918,848 | 36,991 |
| Health and human services | 1,114,709 | 1,104,591 | 1,136,520 | (31,929) |
| Debt Service: | | | | |
| Interest and fiscal charges | - | - | 35,729 | (35,729) |
| Capital outlay | 1,418,468 | 1,319,250 | 1,193,068 | 126,182 |
| Total Expenditures | <u>36,950,822</u> | <u>36,585,941</u> | <u>34,355,597</u> | <u>2,230,344</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 692,951 | 692,951 | (1,016,909) | (1,709,860) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in | 3,117,049 | 3,117,049 | 3,117,049 | - |
| Operating transfers out | (3,810,000) | (3,810,000) | (3,740,000) | 70,000 |
| Total Other Financing Uses | <u>(692,951)</u> | <u>(692,951)</u> | <u>(622,951)</u> | <u>70,000</u> |
| Deficiency of revenues over other sources and expenditures | <u>\$ -</u> | <u>\$ -</u> | (1,639,860) | <u>\$ (1,639,860)</u> |
| Fund balance at beginning of year | | | 2,883,347 | |
| Prior period adjustment (See Note 1) | | | (1,273,406) | |
| Fund balance at end of year | | | <u>\$ (29,919)</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, 2009

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 4,720,300 | \$ 4,720,300 | \$ 4,678,815 | \$ (41,485) |
| Fees, fines and charges for services | 3,236,000 | 3,236,000 | 2,413,914 | (822,086) |
| Investment income | 7,500 | 7,500 | 2,408 | (5,092) |
| Miscellaneous | 1,000 | 1,000 | 1 | (999) |
| Total Revenues | <u>7,964,800</u> | <u>7,964,800</u> | <u>7,095,138</u> | <u>(869,662)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Roads and bridges | 205,100 | 205,100 | 126,304 | 78,796 |
| Total Expenditures | <u>205,100</u> | <u>205,100</u> | <u>126,304</u> | <u>78,796</u> |
| Excess of Revenues Over Expenditures | 7,759,700 | 7,759,700 | 6,968,834 | (790,866) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers out | <u>(7,759,700)</u> | <u>(7,759,700)</u> | <u>(6,889,190)</u> | <u>870,510</u> |
| Total Other Financing Uses | <u>(7,759,700)</u> | <u>(7,759,700)</u> | <u>(6,889,190)</u> | <u>870,510</u> |
| Excess of revenues over other financing sources and expenditures | <u>\$ -</u> | <u>\$ -</u> | 79,644 | <u>\$ 79,644</u> |
| Fund balance at beginning of year | | | <u>88,963</u> | |
| Fund balance at end of year | | | <u>\$ 168,607</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, 2009

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------------|---|
| REVENUES | \$ - | \$ - | \$ - | \$ - |
| EXPENDITURES | | | | |
| General government | 10,000 | 10,000 | - | 10,000 |
| Capital outlay | <u>1,140,000</u> | <u>1,140,000</u> | <u>53,554</u> | <u>1,086,446</u> |
| Total Expenditures | <u>1,140,000</u> | <u>1,140,000</u> | <u>53,554</u> | <u>1,086,446</u> |
| Deficiency of Revenues Over Expenditures | (1,140,000) | (1,140,000) | (53,554) | 1,086,446 |
| OTHER FINANCING SOURCES (USES) | <u>1,150,000</u> | <u>1,150,000</u> | <u>-</u> | <u>(1,150,000)</u> |
| Deficiency of revenues over other financing sources and expenditures | <u>\$ 10,000</u> | <u>\$ 10,000</u> | (53,554) | <u>\$ (63,554)</u> |
| Fund balance at beginning of year | | | <u>1,184,598</u> | |
| Fund balance at end of year | | | <u>\$ 1,131,044</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, 2009, and have issued our report thereon dated July 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 accounting principles generally accepted in the United States of America 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
July 14, 2010

UNAUDITED STATISTICAL DATA

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

GENERAL

| Tax Roll Year | Budget Year | Gross County Valuation | Net Taxable Valuation |
|--------------------------|------------------------|---------------------------------------|--------------------------------------|
| 2008 | 2009 | \$ 7,044,415,407 | \$ 6,100,325,422 |
| 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

| Tax Roll Year | Budget Year | Gross County Valuation | Net Taxable Valuation |
|--------------------------|------------------------|---------------------------------------|--------------------------------------|
| 2008 | 2009 | \$ 7,044,415,407 | \$ 6,100,325,422 |
| 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

| Tax Rate Per \$100 | Total Tax Levy | Collections of Current Taxes | Percentage of Levy Collected Currently |
|-------------------------------|---------------------------|---|---|
| \$ 0.47850 | \$ 28,973,921 | \$ 27,739,520 | 95.74% |
| 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

| Tax Rate Per \$100 | Total Tax Levy | Collections of Current Taxes | Percentage of Levy Collected Currently |
|-------------------------------|---------------------------|---|---|
| \$ 0.07800 | \$ 4,679,504 | \$ 4,487,291 | 95.89% |
| 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% |