

KAUFMAN COUNTY, TEXAS

ANNUAL FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

SEPTEMBER 30, 2012

Commissioners' Court:

County Judge	Mr. Bruce Wood
Commissioner of Precinct #1	Mr. Jimmy Vrzalik
Commissioner of Precinct #2	Mr. Ray Clark
Commissioner of Precinct #3	Mr. Kenneth Schoen
Commissioner of Precinct #4	Mr. Tom Manning

Justices of the Peace:

Precinct #1	Mr. Johnny Perry
Precinct #2	Ms. Patricia B. Ashcroft
Precinct #3	Mr. Mike Smith
Precinct #4	Mr. Johnny Adams

Constables:

Precinct #1	Mr. Shawn Mayfield
Precinct #2	Mr. Joe Don Law
Precinct #3	Mr. Keith Stephens
Precinct #4	Mr. Bryant Morris

86th Judicial District of the State of Texas:

District Judge	Mr. Howard Tygrett
County Auditor	Ms. Karen Cooper

(continued)

KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS (Continued) SEPTEMBER 30, 2012

422nd Judicial District of the State of Texas:

District Judge	Mr. B. Michael Chitty
Criminal District Attorney	Ms. Erleigh Norville Wiley
District Clerk	Ms. Rhonda Hughey
Chief Adult Probation Officer	Mr. Ben Carmona
Chief Juvenile Probation Officer	Ms. Laura Peace

Officials of Kaufman County:

County Court-at-law Judge	Mr. Dennis Jones
County Court-at-law Judge #2	Mr. David Lewis
County Clerk	Ms. Laura Hughes
County Sheriff	Mr. David Byrnes
County Tax Assessor-Collector	Ms. Tonya Radcliff
County Treasurer	Mr. Johnny Countryman
County Veterans Service Officer	Mr. Don Stoy
County Health Officer	Dr. William J. Fortner
Indigent Health Care Officer	Ms. Desiree Pool
Public Works Coordinator	Ms. Kathy Morris
Emergency Management Coordinator	Mr. Steve Howie
Fire Marshall	Mr. Larry Ewing
Purchasing Agent	Mr. Jack Sebastian

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners' Court
of Kaufman County, Texas
Kaufman, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas, as of and for the year ended September 30, 2012, 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, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, Texas, as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows, 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 25, 2013, on our consideration of Kaufman County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and pages 46 through 48, and the required supplementary information on pages 44 through 45, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Pattillo, Brown & Hill, L.L.P.

July 25, 2013

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of Kaufman County (the "County") for the fiscal year ended September 30, 2012. 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 financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the year by \$14,677,441 (net assets). The balance of unrestricted net assets at year-end was \$(493,453).
- Total net assets decreased by \$2,186,757 due primarily to a prior period adjustment of \$(1,246,945) for a capital lease and capital asset adjustments.
- The County's total liabilities increased by \$859,149 from the previous year due to an increase in accounts payable of \$657,315 and due to other governments of \$140,798.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$5,576,040, an increase of \$153,149 from the previous year. The General Fund fund balance is available for spending at the County's discretion (unassigned fund balance).
- The County has accrued a potential liability of \$922,016 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.

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

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

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

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

The government-wide financial statements can be found on pages 10 – 11 of this report.

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 of objectives. The 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 three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental 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 governmental 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 government's near-term financing decisions. Both the governmental fund 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 Fund, Road and Bridge Fund and the Debt Service Fund, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The County adopts annual appropriated budgets for its General, Road and Bridge, and Debt Service Funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12 – 17 of this report.

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 Funds are reported with governmental activities in the government-wide financial statements.

The proprietary fund financial statements can be found on pages 18 – 20 of this report.

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 Net Assets. These activities are excluded from the County’s other financial statements since the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The fiduciary fund financial statements can be found on page 21 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 – 43.

Required supplementary information. Required supplementary information is in addition to the basic financial statements and accompanying notes and presents a budgetary comparison schedules, which includes the original and final amended budget and actual figures. It also includes funding progress schedules for the County’s retirement plan and retiree health plan.

GOVERNMENT-WIDE FIANCIAL 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 \$14,677,441 as of September 30, 2012.

The County’s investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 71% of net assets. 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 decreased \$1,679,769 (net) while current and other assets increased \$352,161 . Cash and investment balances increased \$96,729, primarily due to the County’s monitoring of expenses and conservative budgeting. Long-term liabilities increased from the prior year by \$64,332. The predominant reason for the increase is a capital lease was not included in the financials in the prior year that has a current balance of \$925,554, an increase in the OPEB liability of \$731,009, and payments on outstanding debt of \$2,133,556.

Governmental activities. Governmental activities decreased the County’s net assets by \$2,186,757. The decrease from prior year is due primarily to the \$587,390 increase in County expenditures. County revenues decreased by \$1,806,847 due primarily to decreased charges for services and grants and contributions. This caused net assets to decrease by \$(939,812) which was increased by a prior period adjustment of \$(1,246,945) to decrease net assets.

Table – 1
Kaufman County, Texas’ Net Assets

	Governmental Activities	
	2012	2011
Current and other assets	\$ 11,723,521	\$ 11,371,360
Capital assets	<u>26,194,057</u>	<u>27,873,826</u>
Total assets	<u>37,917,578</u>	<u>39,245,186</u>
Long-term liabilities	21,018,855	20,954,493
Other liabilities	<u>2,221,282</u>	<u>1,426,495</u>
Total liabilities	<u>23,240,137</u>	<u>22,380,988</u>
Net assets		
Invested in capital assets, net of related debt	10,419,312	11,447,866
Restricted	4,751,582	4,612,987
Unrestricted	<u>(493,453)</u>	<u>803,345</u>
Total net assets	<u>\$ 14,677,441</u>	<u>\$ 16,864,198</u>

Table – 2
Kaufman County, Texas’ Changes in Net Assets

	Governmental Activities	
	2012	2011
REVENUES		
General revenues:		
Property taxes	\$ 32,891,734	\$ 32,761,682
Charges for services	6,513,526	7,211,364
Grants and contributions	1,997,475	3,307,559
Investment income	99,236	237,663
Miscellaneous	<u>261,973</u>	<u>52,523</u>
Total revenues	<u>41,763,944</u>	<u>43,570,791</u>
EXPENSES		
General government	11,657,082	11,697,382
Public safety and corrections	17,413,864	16,644,150
Judicial	5,452,962	5,499,160
Infrastructure and environmental services	6,703,347	6,287,898
Health and human services	484,678	344,105
Interest and fiscal charges	592,417	879,785
Community service	<u>399,406</u>	<u>763,886</u>
Total expenses	<u>42,703,756</u>	<u>42,116,366</u>
CHANGE IN NET ASSETS	(939,812)	1,454,425
NET ASSETS, BEGINNING	<u>15,409,773</u>	<u>10,172,713</u>
PRIOR PERIOD ADJUSTMENT	(1,246,945)	5,237,060
NET ASSETS, BEGINNING, RESTATED	<u>15,617,253</u>	<u>15,409,773</u>
NET ASSETS, ENDING	<u>\$ 14,677,441</u>	<u>\$ 16,864,198</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Kaufman County. At the end of the year, unassigned total fund balance of the General Fund was \$1,137,326. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned total fund balance represents 4% of total General Fund expenditures.

The fund balance of the General Fund increased by \$126,250 during the fiscal year. Key factors of the increase were a budgeted decrease in expenditures of \$1,272,743 to offset the budgeted decrease in revenues of \$246,441 from prior year. General fund actual revenues decreased by \$743,672, while actual expenditures increased by \$1,190,038.

The General Road and Bridge Fund had an ending fund balance of \$1,254,546. This fund includes the General Road and Bridge Fund as well as the four individual precinct road and bridge funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the actual and the final amended budget were \$308,492 more than budgeted. This is briefly summarized as follows:

- Due to the County's lower than desired fund balance at the end of FY 2011, efforts to control funds were implemented. The County stayed \$731,172 under budget in expenditures through cost cutting measures.
- The County was under budget with revenues. Revenues collected were \$422,680 less than what was budgeted.

County departments are actively involved in fee-producing activities and collecting outstanding account receivables. Continuous monitoring of departmental expenditures, implementation of a new purchasing policy and conversion to a new financial software has aided in controlling expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Kaufman County's investment in capital assets for its governmental activities as of fiscal year-end was \$26,194,057 (net of accumulated depreciation), a decrease of \$1,679,769 from the prior year. The decrease primarily results from depreciation recorded during the year, offset somewhat by various purchases and disposals of assets in the ordinary course of operations. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, roads, bridges and office furniture and equipment.

Table 3
Kaufman County, Texas' Capital Assets

	Governmental Activities	
	2012	2011
Land	\$ 1,281,406	\$ 1,266,957
Construction in progress	23,564	-
Public monuments	712,736	712,736
Buildings and improvements	27,710,751	27,215,605
Infrastructure	11,575,075	12,147,226
Machinery and equipment	15,781,285	17,680,133
	<u>57,084,817</u>	<u>59,022,657</u>
Less: accumulated depreciation	<u>(30,890,760)</u>	<u>(31,148,831)</u>
Total capital assets, net	<u>\$ 26,194,057</u>	<u>\$ 27,873,826</u>

Long-term Debt. At the end of the fiscal year, the County had total debt outstanding of \$21,018,855 which is an increase of \$64,332 from the prior year.

Table 4
Kaufman County, Texas' Outstanding Debt

	Governmental Activities	
	2012	2011
Certificates of obligation	\$ 13,585,000	\$ 14,770,000
Bond premiums	448,208	53,353
Deferred loss on refunding	(342,985)	-
Tax Note	375,000	730,000
Compensated absences	1,416,187	1,475,759
Capital leases	1,709,522	872,607
OPEB	2,905,907	2,174,898
Legal accrual	<u>922,016</u>	<u>877,906</u>
Total Outstanding Debt	<u>\$ 21,018,855</u>	<u>\$ 20,954,523</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 \$533,580,366, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 35 on page 37.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- In December 2007, the County entered an interlocal agreement with the City of Terrell, Texas, to participate in a newly created Tax Increment Financing Reinvestment Zone ("TIF"). In order to encourage accelerated development and redevelopment of the TIF properties, the County agreed to dedicate 50% of the General Fund tax revenues attributable to the future increases in taxable value of 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 2012 financial statements, and the effect for 2013 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.
- During the 2010 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 2012 financial statements, and the effect for 2013 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 2012 is \$33,241,766 for the General Fund and estimated expenditures are \$32,957,763. The total tax rate remained 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 County'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, Texas 75142.

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**BASIC
FINANCIAL STATEMENTS**

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KAUFMAN COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 6,473,459
Investments	885,050
Taxes receivable, net of allowance for uncollectibles	2,320,230
Accounts receivable	1,562,474
Due from other governments	212,744
Deferred charges	269,564
Capital assets, net:	
Not subject to depreciation	2,017,706
Subject to depreciation	<u>24,176,351</u>
Total assets	<u>37,917,578</u>
LIABILITIES	
Accounts payable	1,250,428
Accrued liabilities	433,020
Due to other governments	428,493
Unearned revenue	31,510
Accrued interest	77,831
Long-term liabilities:	
Due within one year	2,787,324
Due in more than one year	<u>18,231,531</u>
Total liabilities	<u>23,240,137</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,419,312
Restricted:	
Road and bridge projects	1,501,658
Public safety	248,370
Judicial	714,402
Library services	22,818
Fire code enforcement	119,451
Historical preservation	25,879
Records management	1,026,091
Capital projects	900,164
Debt service	186,848
Other purposes	5,901
Unrestricted	<u>(493,453)</u>
Total net assets	<u>\$ 14,677,441</u>

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

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KAUFMAN COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental activities:						
General government	\$ 11,657,082	\$ 3,010,630	\$ 348,447	\$ 115,153		\$(8,182,852)
Public safety and corrections	17,413,864	879,266	1,141,883	96,586		(15,296,129)
Judicial	5,452,962	2,118,361	214,662	-		(3,119,939)
Community services	399,406	-	80,744	-		(318,662)
Infrastructure and environmental	6,703,347	505,269	-	-		(6,198,078)
Health and human services	484,678	-	-	-		(484,678)
Interest and fiscal charges	592,417	-	-	-		(592,417)
Total governmental activities	<u>42,703,756</u>	<u>6,513,526</u>	<u>1,785,736</u>	<u>211,739</u>		<u>(34,192,755)</u>
Total primary government	<u>\$ 42,703,756</u>	<u>\$ 6,513,526</u>	<u>\$ 1,785,736</u>	<u>\$ 211,739</u>		<u>(34,192,755)</u>
General revenues:						
Property taxes						32,891,734
Investment income						99,236
Miscellaneous						<u>261,973</u>
Total general revenues						<u>33,252,943</u>
Change in net assets						(939,812)
Net assets, beginning						<u>16,864,198</u>
Net assets- prior period adjustment						(1,246,945)
Net assets, beginning, restated						<u>15,617,253</u>
Net assets, ending						<u>\$ 14,677,441</u>

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

KAUFMAN COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	<u>General</u>	<u>General Road and Bridge</u>	<u>Debt Service</u>
ASSETS			
Cash and cash equivalents	\$ 2,276,136	\$ 1,573,464	\$ 106,843
Investments	60,000	-	50
Receivables:			
Taxes	1,891,629	270,815	157,786
Accounts	1,522,364	35,379	-
Due from other governments	205,244	-	-
Due from other funds	<u>100</u>	<u>-</u>	<u>-</u>
 Total assets	 <u>\$ 5,955,473</u>	 <u>\$ 1,879,658</u>	 <u>\$ 264,679</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	834,246	328,910	-
Accrued liabilities	373,003	49,090	-
Due to other governments	422,433	-	-
Due to other funds	-	-	-
Deferred revenue	<u>3,188,465</u>	<u>247,112</u>	<u>143,419</u>
Total liabilities	<u>4,818,147</u>	<u>625,112</u>	<u>143,419</u>
Fund balances:			
Restricted	-	1,254,546	121,260
Unassigned	<u>1,137,326</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,137,326</u>	<u>1,254,546</u>	<u>121,260</u>
 Total liabilities and fund balances	 <u>\$ 5,955,473</u>	 <u>\$ 1,879,658</u>	 <u>\$ 264,679</u>

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

Other Nonmajor Governmental	Total Governmental Funds
\$ 2,361,546	\$ 6,317,989
825,000	885,050
-	2,320,230
4,731	1,562,474
7,500	212,744
<u>40,337</u>	<u>40,437</u>
<u>\$ 3,239,114</u>	<u>\$ 11,338,924</u>
87,272	1,250,428
10,927	433,020
6,060	428,493
40,437	40,437
<u>31,510</u>	<u>3,610,506</u>
<u>176,206</u>	<u>5,762,884</u>
3,063,076	4,438,882
(168)	<u>1,137,158</u>
<u>3,062,908</u>	<u>5,576,040</u>
<u>\$ 3,239,114</u>	<u>\$ 11,338,924</u>

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KAUFMAN COUNTY, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Fund balances - governmental funds		\$	5,576,040
Amounts reported for governmental activities in the Statement of Net Assets are different due to the following:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:			
Governmental capital assets	\$	28,644,802	
Less: accumulated depreciation	(<u>2,450,745</u>	26,194,057
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.			
Property taxes		2,073,291	
Court fines		<u>1,505,705</u>	
			3,578,996
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.			
			(2,905,907)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
			(16,921,368)
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.			
			155,470
Potential legal liability stemming from judgment that is not payable from current resources and therefore are not reported in the governmental funds.			
			(922,016)
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>77,831</u>)
Net assets of governmental activities		\$	<u>14,677,441</u>

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

KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	General Road and Bridge	Debt Service
REVENUES			
Property taxes	\$ 27,361,008	\$ 3,405,502	\$ 2,098,549
Mixed beverage taxes	81,333	-	-
License and permits	53,733	-	-
Fees of office	3,476,864	2,246,332	-
Charges for services	220,085	329,129	-
Forfeitures	-	-	-
Intergovernmental	1,429,241	47,605	-
Investment income	68,486	18,104	3,213
Miscellaneous	128,336	9,202	-
Total revenues	<u>32,819,086</u>	<u>6,055,874</u>	<u>2,101,762</u>
EXPENDITURES			
General government	10,429,436	-	-
Public safety and corrections	14,739,045	-	-
Judicial	4,924,707	-	-
Community services	390,210	-	-
Infrastructure and environmental	339,745	5,572,509	-
Health and human service	474,918	-	-
Capital outlay	415,975	403,115	-
Debt service:			
Principal	438,201	309,527	15,125,000
Interest and fiscal charges	74,354	103,008	995,902
Total expenditures	<u>32,226,591</u>	<u>6,388,159</u>	<u>16,120,902</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>592,495</u>	<u>(332,285)</u>	<u>(14,019,140)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of long term debt	-	-	13,585,000
Premium on issuance of debt	-	-	493,029
Proceeds from sale of capital assets	11,553	43,759	-
Proceeds from insurance	21,300	-	-
Operating transfers in	19,610	-	-
Operating transfers out	(518,708)	-	-
Issuance of capital lease	-	232,422	-
Total other financing sources (uses)	<u>(466,245)</u>	<u>276,181</u>	<u>14,078,029</u>
NET CHANGE IN FUND BALANCES	126,250	(56,104)	58,889
FUND BALANCES, BEGINNING	<u>1,011,076</u>	<u>1,310,650</u>	<u>62,371</u>
FUND BALANCES, ENDING	<u>\$ 1,137,326</u>	<u>\$ 1,254,546</u>	<u>\$ 121,260</u>

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

<u>Other Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ 32,865,059
-	81,333
42,286	96,019
594,664	6,317,860
-	549,214
133,155	133,155
703,218	2,180,064
9,433	99,236
83,205	220,743
<u>1,565,961</u>	<u>42,542,683</u>
131,703	10,561,139
1,296,878	16,035,923
403,258	5,327,965
466	390,676
-	5,912,254
-	474,918
208,640	1,027,730
-	15,872,728
-	1,173,264
<u>2,040,945</u>	<u>56,776,597</u>
<u>(474,984)</u>	<u>(14,233,914)</u>
-	13,585,000
-	493,029
-	55,312
-	21,300
518,727	538,337
(19,629)	(538,337)
-	232,422
<u>499,098</u>	<u>14,387,063</u>
24,114	153,149
<u>3,038,794</u>	<u>5,422,891</u>
<u>\$ 3,062,908</u>	<u>\$ 5,576,040</u>

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KAUFMAN COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds: \$ 153,149

Amounts reported for governmental activities in the Statement of Activities are different

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost and accumulated depreciation of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Expenditures for capital assets	\$ 890,684		
Less: current year depreciation	<u>(2,450,745)</u>	(1,560,061)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		(225,818)
--	--	---	----------

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

Property taxes	(54,658)		
Court fines	<u>(724,081)</u>	(778,739)

The issuance of long-term debt (e.g., certificates of obligation, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt is an expenditure in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.			1,871,633
--	--	--	-----------

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			252,416
---	--	--	---------

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	59,542		
OPEB obligation	<u>(731,009)</u>	(671,467)

Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.			<u>19,075</u>
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Change in net assets of governmental activities		\$(<u>939,812)</u>
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The accompanying notes are an integral part of these financial statements.

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KAUFMAN COUNTY, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

SEPTEMBER 30, 2012

	<u>Governmental Activities Internal Service</u>
ASSETS	
Current assets:	
Cash	\$ <u>155,470</u>
Total assets	<u>155,470</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Unrestricted	<u>155,470</u>
Total net assets	<u>\$ 155,470</u>

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

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KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Governmental Activities Internal Service
	<u> </u>
OPERATING REVENUES	\$ <u> -</u>
OPERATING EXPENSES	<u> -</u>
CHANGE IN NET ASSETS	-
NET ASSETS, BEGINNING	<u> 155,470</u>
NET ASSETS, ENDING	\$ <u><u> 155,470</u></u>

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

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KAUFMAN COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Governmental Activities Internal Service <hr/>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ <u> -</u>
Net cash used by operating activities	<u> -</u>
NET DECREASE IN CASH	-
CASH, BEGINNING	<u> 155,470</u>
CASH, ENDING	<u>\$ 155,470</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	<u>\$ -</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ -</u>

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

KAUFMAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2012

	Governmental Activities Agency Funds <hr style="width: 100%;"/>
ASSETS	
Current assets:	
Cash	\$ <u>4,985,269</u>
Total assets	\$ <u><u>4,985,269</u></u>
LIABILITIES	
Due to others	<u>4,985,269</u>
Total liabilities	\$ <u><u>4,985,269</u></u>

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

KAUFMAN COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

I. 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. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement 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.

Debt Service Fund – The Debt Service Fund accounts for resources used to pay for debt.

Nonmajor funds include Special Revenue Funds, Capital Projects Funds, and Debt Service Funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statement to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in lieu of taxes and other charges between the government’s water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)

Proprietary funds distinguish between operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund are charges to customers for sales and services. The Enterprise Fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The County has one proprietary fund which is classified as an Internal Service Fund. 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 claims and administrative expenses.

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)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity

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.

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 Investment Act. Investments at September 30, 2012, 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.

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."

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 Commissioners' Court are as follows:

Land and land improvements	Capitalize all
Infrastructure	\$100,000
Buildings and building improvements	\$50,000
Furniture and equipment	\$5,000
Monuments	Capitalize all

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets (Continued)

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	10 - 30 years
Furniture and equipment	3 - 15 years
Vehicles	5 - 10 years
Infrastructure	20 - 50 years

Items Capitalized but not Depreciated

The County possesses certain capital assets that have been capitalized and not depreciated. These items are held for public exhibition and education rather than financial gain. They are also protected, kept unencumbered, cared for and preserved. Therefore, these items meet the criteria to be capitalized. These monuments and historical structures are deemed inexhaustible and are therefore not depreciated.

Compensated Absences

The County's permanent, fulltime 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.

The County's permanent, fulltime employees accrue sick leave at the rate of 8 hours per month to a maximum 120 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.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

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.

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 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, 2012, was \$0.5565 per \$100 and was allocated as follows:

General fund	\$ 0.4635
Debt service fund	0.0356
Road and bridge funds	<u>0.0574</u>
Total	<u>\$ 0.5565</u>

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Fund Balance Classification (Continued)

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the Commissioners' Court, the County's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Commissioners' Court removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the County's intent to be used for a specific purpose but are neither restricted nor committed. This intent is determined by the County Judge, with the assistance of the County Auditor and County Attorney, as needed.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Restricted net assets, as presented in the government-wide statement of net assets, are reported when constraints placed on the use of net assets are either 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provisions or enabling legislation.

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.

II. DETAILED NOTES ON ALL FUNDS

A. 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.

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.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Investments (Continued)

During the year ended September 30, 2012, 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 acts as custodian of investments purchased with local investment funds. TexPool investments are stated at amortized cost, which in more cases, approximates the market value of the shares. The fair value of these investments at September 30, 2012, was \$885,638.

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Risk</u>
TexPool	\$ 885,050	41	AAAm
Portfolio weighted average maturity	<u>\$ 885,050</u>	41	

Credit Risk – Credit risk is the risk that an issuer or other counterparty 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.

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

Concentration of Credit Risk – Custodial 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, 2012, the County is fully collateralized.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Investments (Continued)

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.

B. Receivables

Receivables of the County consist of property taxes, fines and fees, and beverage tax. 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, 2012, per the government-wide statements, including the allowance for uncollectible accounts:

Receivables as of year-end for the County’s individual funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>General Road and Bridge</u>	<u>Other Governmental</u>	<u>Total</u>
Receivables:				
Taxes	\$ 2,099,548	\$ 300,905	\$ 175,318	\$ 2,575,771
Accounts	16,659	35,379	4,731	56,769
Adjudicated fine receivable	15,057,052	-	-	15,057,052
Due from other governments	<u>205,244</u>	<u>-</u>	<u>7,500</u>	<u>212,744</u>
Gross receivables	17,378,503	336,284	187,549	17,902,336
Less: allowance for uncollectibles	<u>(13,759,266)</u>	<u>(30,090)</u>	<u>(17,532)</u>	<u>(13,806,888)</u>
Net total receivables	<u>\$ 3,619,237</u>	<u>\$ 306,194</u>	<u>\$ 170,017</u>	<u>\$ 4,095,448</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for that revenue is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

<u>Receivable Fund</u>	<u>Unavailable</u>	<u>Unearned</u>
General		
Delinquent property tax receivable	\$ 1,682,760	\$ -
Fines	<u>1,505,705</u>	<u>-</u>
Total general	<u>3,188,465</u>	<u>-</u>
Road and bridge		
Delinquent property tax receivable	<u>247,112</u>	<u>-</u>
Total road and bridge	<u>247,112</u>	<u>-</u>
Other governmental		
Delinquent property tax receivable	143,419	-
Grants	<u>-</u>	<u>31,510</u>
Total other governmental	<u>143,419</u>	<u>31,510</u>
Totals	<u>\$ 3,578,996</u>	<u>\$ 31,510</u>

C. 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.

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2012, is as follows:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 1,266,957	\$ 15,750	\$ -	\$(1,301)	\$ 1,281,406
Construction in progress	-	23,564	-	-	23,564
Public monuments	712,736	-	-	-	712,736
Total assets not being depreciated	<u>1,979,693</u>	<u>39,314</u>	<u>-</u>	<u>(1,301)</u>	<u>2,017,706</u>
Capital assets, being depreciated:					
Buildings	27,215,605	-	-	495,146	27,710,751
Infrastructure	12,147,226	-	-	(572,151)	11,575,075
Machinery and equipment	17,680,133	851,370	(1,005,201)	(1,745,017)	15,781,285
Total capital assets being depreciated	<u>57,042,964</u>	<u>851,370</u>	<u>(1,005,201)</u>	<u>(1,822,022)</u>	<u>55,067,111</u>
Less accumulated depreciation:					
Buildings	9,761,599	800,378	-	176,322	10,738,299
Infrastructure	9,366,294	269,486	-	(399,080)	9,236,700
Machinery and equipment	12,020,938	1,380,881	(779,383)	(1,706,675)	10,915,761
Total accumulated depreciation	<u>31,148,831</u>	<u>2,450,745</u>	<u>(779,383)</u>	<u>(1,929,433)</u>	<u>30,890,760</u>
Total capital assets being depreciated, net	<u>25,894,133</u>	<u>(1,599,375)</u>	<u>(225,818)</u>	<u>107,411</u>	<u>24,176,351</u>
Governmental activities capital assets, net	<u>\$ 27,873,826</u>	<u>\$(1,560,061)</u>	<u>\$(225,818)</u>	<u>\$ 106,110</u>	<u>\$ 26,194,057</u>

Depreciation expense for the year totaled \$2,450,745 and was charged to functions of the government-wide statement of activities as follows:

General government	\$ 618,412
Judicial	34,264
Public safety and corrections	1,104,512
Infrastructure and environmental	689,946
Health and human services	1,597
Community services	<u>2,014</u>
Total depreciation expense	<u>\$ 2,450,745</u>

D. Operating Leases

The County is committed under various noncancelable operating leases for equipment including dump trucks. For the year ended September 30, 2012, lease expenditures totaled \$68,060. Future minimum operating lease commitments are as follows:

Years Ending September 30,	
2013	<u>\$ 656,090</u>

(continued)

II. DETAILED NOTES ON ALL FUNDS (Continued)

E. 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, 2012, the County entered into 2 new lease agreements classified as capital leases in addition to the 15 other leases capitalized in prior years. The County obtained equipment for various departments. 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:

Asset:	
Machinery and equipment	\$ 3,807,945
Less: accumulated depreciation	<u>(1,946,709)</u>
Total	<u>\$ 1,861,236</u>

Depreciation expense related to these leases for the year ended September 30, 2012, was \$511,957.

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, 2012:

<u>Years Ending</u> <u>September 30,</u>	
2013	\$ 951,573
2014	665,018
2015	151,821
2016	<u>51,072</u>
Total minimum lease payments	1,819,484
Less: amount representing interest	<u>(109,962)</u>
Present value of minimum lease payments	<u>\$ 1,709,522</u>

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt

During the year ended September 30, 2012, the following changes occurred in a long-term debt:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance	Due Within One Year
Governmental activities:						
Certificates of obligation	\$ 14,770,000	\$ -	\$(14,770,000)	\$ -	\$ -	\$ -
General obligation bonds	-	13,585,000	-	-	13,585,000	1,315,000
Tax note	730,000	-	(355,000)	-	375,000	375,000
Bond premiums	53,353	493,029	(98,174)	-	448,208	44,821
Deferred loss on refundin	-	(377,283)	34,298	-	(342,985)	(34,298)
Compensated absences	1,475,729	197,656	(257,198)	-	1,416,187	205,758
OPEB obligation	2,174,898	884,141	(153,132)	-	2,905,907	-
Capital leases	872,607	232,416	(748,556)	1,353,055	1,709,522	881,043
Legal accrual	877,906	44,110	-	-	922,016	-
Total governmental activities	<u>\$ 20,954,493</u>	<u>\$ 15,059,069</u>	<u>\$(16,347,762)</u>	<u>\$ 1,353,055</u>	<u>\$ 21,018,855</u>	<u>\$ 2,787,324</u>

\$13,585,000 General Obligation Refunding Bonds, Series 2012, annual maturities ranging from \$1,315,000 to \$1,720,000 through February 15, 2022; interest varies from 2.0% to 3.0%.

\$ 13,585,000

\$2,020,000 Texas Tax Notes, Series 2006B, dated August 15, 2006, annual maturities ranging from \$300,000 to \$375,000 through February 15, 2013; interest payable semi-annually; interest rate of 4.22%.

375,000

Total governmental activities tax supported debt

\$ 13,960,000

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.

Current Refunding

On June 28, 2012, the County issued \$13,585,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$13,740,000 for the General Obligation Bonds, Series 2002. The reacquisition price exceeded the net carrying amount of the old debt by \$377,283. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to decrease total debt service payments over the next 11 years by \$1,627,111 and resulted in an economic gain of \$1,539,704.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

F. Long-term Debt (Continued)

The annual requirements to amortize the Certificates of Obligation outstanding at September 30, 2012, are as follows:

Years Ending September 30,	Certificate of Obligation		
	Principal	Interest	Total Requirements
2013	\$ 1,315,000	\$ 390,014	\$ 1,705,014
2014	-	368,100	368,100
2015	1,365,000	347,625	1,712,625
2016	1,410,000	306,000	1,716,000
2017	1,455,000	263,025	1,718,025
2018-2022	<u>8,040,000</u>	<u>619,650</u>	<u>8,659,650</u>
Total	<u>\$ 13,585,000</u>	<u>\$ 2,294,414</u>	<u>\$ 15,879,414</u>

The annual requirements to amortize the Tax Note outstanding at September 30, 2012, are as follows:

Years Ending September 30,	Tax Note		
	Principal	Interest	Total Requirements
2013	\$ <u>375,000</u>	\$ <u>7,913</u>	\$ <u>382,913</u>
Total	<u>\$ 375,000</u>	<u>\$ 7,913</u>	<u>\$ 382,913</u>

G. 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. As of September 30, 2012, the County has accrued an estimated liability of \$922,016 for a final judgment in a collection suit against the County. An appeal on behalf of the County is currently pending. A provision for this suit has been recorded in the County's government-wide financial statements and is expected to be liquidated with future, rather than existing, resources.

(continued)

III. DETAILED NOTES ON ALL FUNDS (Continued)

H. Interfund Activity

Interfund transfers for the fiscal year ending September 30, 2012, are summarized below:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amounts</u>
General	Nonmajor governmental	\$ 518,708
Nonmajor governmental	General	19,610
	Nonmajor governmental	<u>19</u>
		<u>\$ 538,337</u>

I. Fund Balance

As of September 30, 2012, governmental fund balance is composed of the following:

<u>Fund Balance Classification</u>	<u>General Road and Bridge</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Totals</u>
Restricted:				
Road and bridge construction and repairs	\$ 1,254,546	\$ -	\$ -	\$ 1,254,546
Capital acquisition and construction	-	-	900,164	900,164
Public safety	-	-	248,370	248,370
Judicial	-	-	714,402	714,402
Other	-	-	5,901	5,901
Library services	-	-	22,818	22,818
Fire code enforcement	-	-	119,451	119,451
Historical preservation	-	-	25,879	25,879
Records management and preservation	-	-	1,026,091	1,026,091
Debt service	<u>-</u>	<u>121,260</u>	<u>-</u>	<u>121,260</u>
Total governmental fund balance	<u>\$ 1,254,546</u>	<u>\$ 121,260</u>	<u>\$ 3,063,076</u>	<u>\$ 4,438,882</u>

IV. OTHER INFORMATION

A. Pension Plan

Plan Description

Kaufman County provides retirement, disability and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 624 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCERS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034 or online at www.tcders.org.

(continued)

IV. OTHER INFORMATION (Continued)

A. Pension Plan (Continued)

Plan Description (Continued)

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.

Funding Policy

The employer has elected the annually determined contribution rate (ACDR) 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 8.94% for the months of the accounting year 2012, and 8.46% for the months of the accounting year 2011.

The deposit rate payable by the employee members for calendar years 2011 and 2012 is the rate of 7.0% as adopted by the governing body of the employer within the options available in the TCDRS Act.

Funding Status and Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/11	\$ 37,593,445	\$ 43,702,385	\$ 6,108,940	86.02%	\$ 19,104,033	31.98%

(continued)

IV. OTHER INFORMATION (Continued)

A. Pension Plan (Continued)

Funding Status and Progress (Continued)

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost

For the employer's accounting year ending September 30, 2012, the annual pension cost for the TCDRS plan for its employees was \$1,778,729, and the actual contributions were \$1,778,729.

Actuarial Valuation Information

The annual required contributions were actuarially determined as a percent 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, 2010 and December 31, 2011, the basis for determining the contribution rates for fiscal year 2012. The December 31, 2011, actuarial valuation is the most recent valuation. Information in regards to actuarial information is as follows:

Actuarial Valuation Date	12/31/11	12/31/10	12/31/09
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	20 years; closed period	20 years; closed period	20 years; closed period
Amortization period for new gains/losses	20 years	20 years	20 years
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 rate of return*	8.00%	8.00%	8.00%
Projected salary increases*	5.40%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

*Includes inflation at the stated rate

Trend Information

<u>Plan/ Calendar Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation</u>
09/30/10	\$ 1,742,117	\$ 1,742,117	100.0%	\$ -
09/30/11	1,654,223	1,654,223	100.0%	-
09/30/12	1,778,729	1,778,729	100.0%	-

(continued)

IV. OTHER INFORMATION (Continued)

B. Other Postemployment Benefits

Program Description

In addition to the pension benefits described in Note IV A. as required by state law and defined by the County Policy, the County makes available health care 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 health care 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 TCERS (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 2012 were \$153,132. 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 2012 ranges from \$334 to \$669 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.

Annual OPEB Cost and Net OPEB Obligations

The County's annual other postemployment 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 beginning October 1, 2009 as required by GASB. The following table shows the components of the County's annual OPEB cost for the year ending September 30, 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

(continued)

IV. OTHER INFORMATION (Continued)

B. Other Postemployment Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligations (Continued)

Annual required contribution	\$ 876,947
Interest on net OPEB obligation	97,870
Adjustment to the ARC	<u>(90,676)</u>
Annual OPEB cost	884,141
Contributions made	<u>(153,132)</u>
Increase (decrease) in net OPEB obligation	731,009
Net OPEB obligation/(asset), beginning	<u>2,174,898</u>
 Net OPEB obligation/(asset), ending	 <u>\$ 2,905,907</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 was as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Employer</u> <u>Amount</u> <u>Contributed</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
09/30/2012	\$ <u>884,141</u>	\$ <u>153,132</u>	<u>17.3%</u>	\$ <u>2,905,907</u>

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,365,354, 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 health care 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 multi-year trend information (only one year presented in this third 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)

IV. OTHER INFORMATION (Continued)

B. Other Postemployment 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.

The actuarial methods and significant assumptions used are as follows:

Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years; open
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.5%
Payroll growth rate	3%
Projected salary increases	3.75% to 17%
General inflation rate	3%
Health care cost trend rate	Inflation rate of 9% declining to an ultimate rate of 4.5% after 9 years

C. 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.

D. Subsequent Event

On October 8, 2012, the County entered into an agreement with TxDOT for a SIB loan for \$1 million at 2.64% interest.

On January 10, 2013, the County issued \$1,490,000 in Tax Notes Series 2013 at 2.1% interest.

E. Prior Period Adjustments

The statement of activities had adjustments to beginning net assets. A summary of these differences is noted below:

Capitalized assets adjustments:	\$	106,110
Leases not recorded as capital lease in prior year:	(1,353,055)

**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, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/11	\$ 37,593,445	\$ 43,702,385	\$ 6,108,940	86.02%	\$ 19,104,033	31.98%
12/31/10	34,669,779	40,162,404	5,492,625	86.32%	20,684,283	26.55%
12/31/09	32,013,828	36,768,374	4,754,546	87.07%	21,271,267	22.35%

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, 2012

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/10	\$ -	\$ 5,365,354	\$ 5,365,354	- %	\$ 20,684,283	25.94%
12/31/08	-	6,000,769	6,000,769	- %	20,331,014	29.52%

Note: This is the fourth year of implementation of GASB 45. Accordingly, only two years of funding progress are available as GASB 45 only requires the County to have actuarial evaluations performed every two years. Additional years of funding progress will be presented in future years, as they become available.

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KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 27,636,080	\$ 27,636,080	\$ 27,361,008	\$(275,072)
Mixed beverage taxes	88,000	88,000	81,333	(6,667)
License and permits	24,100	24,100	53,733	29,633
Fees of office	3,462,750	3,478,250	3,476,864	(1,386)
Charges for service	218,650	224,211	220,085	(4,126)
Intergovernmental	1,527,565	1,644,565	1,429,241	(215,324)
Investment income	40,140	39,860	68,486	28,626
Miscellaneous	<u>106,700</u>	<u>106,700</u>	<u>128,336</u>	<u>21,636</u>
Total revenues	<u>33,103,985</u>	<u>33,241,766</u>	<u>32,819,086</u>	<u>(422,680)</u>
EXPENDITURES				
Current:				
General government	11,279,745	11,254,787	10,429,436	825,351
Public safety	14,652,003	14,720,395	14,739,045	(18,650)
Judicial	4,721,463	5,041,125	4,924,707	116,418
Community services	367,624	390,525	390,210	315
Infrastructure and environmental services	362,525	363,752	339,745	24,007
Health and human services	440,750	482,010	474,918	7,092
Capital outlay	304,851	692,751	415,975	276,776
Debt service:				
Principal	12,418	12,418	438,201	(425,783)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>74,354</u>	<u>(74,354)</u>
Total expenditures	<u>32,141,379</u>	<u>32,957,763</u>	<u>32,226,591</u>	<u>731,172</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES				
	<u>962,606</u>	<u>284,003</u>	<u>592,495</u>	<u>308,492</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	11,553	11,553
Proceeds from insurance	-	-	21,300	21,300
Operating transfers in	5,383	5,383	19,610	14,227
Operating transfers out	<u>(487,268)</u>	<u>(508,579)</u>	<u>(518,708)</u>	<u>(10,129)</u>
Total other financing sources (uses)	<u>(481,885)</u>	<u>(503,196)</u>	<u>(466,245)</u>	<u>36,951</u>
NET CHANGE IN FUND BALANCES	480,721	(219,193)	126,250	345,443
FUND BALANCES, BEGINNING	<u>1,011,076</u>	<u>1,011,076</u>	<u>1,011,076</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 1,491,797</u>	<u>\$ 791,883</u>	<u>\$ 1,137,326</u>	<u>\$ 345,443</u>

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KAUFMAN COUNTY, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

GENERAL ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 3,462,730	\$ 3,462,730	\$ 3,405,502	\$(57,228)
Fees of office	2,405,000	2,405,000	2,246,332	(158,668)
Charges for service	166,500	166,500	329,129	162,629
Intergovernmental	3,000	3,000	47,605	44,605
Investment income	15,800	15,800	18,104	2,304
Miscellaneous	2,600	2,600	9,202	6,602
Total revenues	<u>6,055,630</u>	<u>6,055,630</u>	<u>6,055,874</u>	<u>244</u>
EXPENDITURES				
Current:				
Infrastructure and environmental	6,570,330	6,547,636	5,572,509	975,127
Capital outlay	178,000	222,394	403,115	(180,721)
Debt service				
Principal	421,000	399,500	309,527	89,973
Interest and fiscal charges	-	-	103,008	(103,008)
Total expenditures	<u>7,169,330</u>	<u>7,169,530</u>	<u>6,388,159</u>	<u>781,371</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,113,700)</u>	<u>(1,113,900)</u>	<u>(332,285)</u>	<u>781,615</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	5,100	5,100	43,759	38,659
Issuance of capital lease	-	-	232,422	232,422
Total other financing sources (uses)	<u>5,100</u>	<u>5,100</u>	<u>276,181</u>	<u>271,081</u>
NET CHANGE IN FUND BALANCES	<u>(1,108,600)</u>	<u>(1,108,800)</u>	<u>(56,104)</u>	<u>1,052,696</u>
FUND BALANCES, BEGINNING	<u>1,310,650</u>	<u>1,310,650</u>	<u>1,310,650</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 202,050</u>	<u>\$ 201,850</u>	<u>\$ 1,254,546</u>	<u>\$ 1,052,696</u>

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KAUFMAN COUNTY, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2012

Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial report:

1. The County Judge has departmental meetings with management to determine the departmental budget requests.
2. The County Judge submits to the County Commissioners a proposed operating budget for the fiscal year commencing the following October. The operational budget includes proposed expenditures and the means of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
4. After the public hearings, the Commissioners' Court reviews the budget and makes any adjustments they feel necessary.
5. The budget is then legally enacted by the Commissioners' Court on or before October 1.

Only the governing body, composed of the Commissioners' Court, may amend the budget after its adoption so long as the amendment continues to meet the requirements of Section 111 of the *Local Government Code*. During the year, several supplementary amendments to the original budget were required. Individual amendments were not material in relation to the original appropriations, and all amendments were legally made. The County's budget authorizes expenditures for all governmental fund types. The County's legally adopted budget is at the department level in those funds with multiple departments and at the fund level in single department funds. All budgets are fixed in nature. For internal management purposes, the budgets are detailed by line item and entered into the accounting records. Comparisons of actual expenditures or expenses to budget are made on an ongoing basis. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budget appropriations lapse at year-end. Annual appropriated budgets are adopted for the General, General Road and Bridge Funds and Debt Service Funds.

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**COMBINING
STATEMENTS AND SCHEDULES**

KAUFMAN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	Sheriff Federal Forfeitures	Sheriff State Forfeitures	District Attorney Forfeitures
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 60,282	\$ 69,948	\$ 73,881
Investments	-	-	-
Receivables:			
Accounts	-	-	-
Due from other governments	-	-	-
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 60,282</u>	<u>\$ 69,948</u>	<u>\$ 73,881</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	-
Accrued liabilities	-	-	-
Due to other governments	-	-	-
Due to other funds	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Restricted	60,282	69,948	73,881
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>60,282</u>	<u>69,948</u>	<u>73,881</u>
Total liabilities and fund balances	<u>\$ 60,282</u>	<u>\$ 69,948</u>	<u>\$ 73,881</u>

<u>Law Library</u>	<u>Voter Registration</u>	<u>Juvenile Probation</u>	<u>Appellate Justice System</u>	<u>Records Management</u>	<u>Library Memorials</u>	<u>Courthouse Security</u>
\$ 286,135	\$ 6,209	\$ 163,940	\$ 16,533	\$ 341,755	\$ 22,796	\$ 20,064
-	-	-	-	-	-	-
-	-	4,731	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	40,337
<u>\$ 286,135</u>	<u>\$ 6,209</u>	<u>\$ 168,671</u>	<u>\$ 16,533</u>	<u>\$ 341,755</u>	<u>\$ 22,796</u>	<u>\$ 60,401</u>
1,791	-	66,799	8,988	-	-	-
-	815	9,397	-	715	-	-
-	-	6,060	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>1,791</u>	<u>815</u>	<u>82,256</u>	<u>8,988</u>	<u>715</u>	<u>-</u>	<u>-</u>
284,344	5,394	86,415	7,545	341,040	22,796	60,401
-	-	-	-	-	-	-
<u>284,344</u>	<u>5,394</u>	<u>86,415</u>	<u>7,545</u>	<u>341,040</u>	<u>22,796</u>	<u>60,401</u>
<u>\$ 286,135</u>	<u>\$ 6,209</u>	<u>\$ 168,671</u>	<u>\$ 16,533</u>	<u>\$ 341,755</u>	<u>\$ 22,796</u>	<u>\$ 60,401</u>

(continued)

KAUFMAN COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2012

	Records Management and Preservation	District Clerk Records Management and Preservation	Fire Code	CCL Diversion Court
ASSETS				
Cash and cash equivalents	\$ 350,441	\$ 101,205	\$ 119,451	\$ 41,236
Investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 350,441</u>	<u>\$ 101,205</u>	<u>\$ 119,451</u>	<u>\$ 41,236</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balances:				
Restricted	350,441	101,205	119,451	41,236
Unassigned	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>350,441</u>	<u>101,205</u>	<u>119,451</u>	<u>41,236</u>
Total liabilities and fund balances	<u>\$ 350,441</u>	<u>\$ 101,205</u>	<u>\$ 119,451</u>	<u>\$ 41,236</u>

<u>Star Program</u>	<u>Constable Pct. 4 Forfeitures</u>	<u>Justice Court Building Security</u>	<u>Construction Projects</u>	<u>Texas Water Improvement</u>	<u>Historical Society</u>	<u>Farm Museum</u>
\$ 507	\$ 3,035	\$ 50,781	\$ 75,164	\$ 100	\$ 15,930	\$ 9,949
-	-	-	825,000	-	-	-
-	-	-	-	-	-	-
-	-	-	-	7,500	-	-
-	-	-	-	-	-	-
<u>507</u>	<u>3,035</u>	<u>50,781</u>	<u>900,164</u>	<u>7,600</u>	<u>15,930</u>	<u>9,949</u>
-	-	-	-	7,500	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	40,337	-	100	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>40,337</u>	<u>-</u>	<u>7,600</u>	<u>-</u>	<u>-</u>
507	3,035	10,444	900,164	-	15,930	9,949
-	-	-	-	-	-	-
<u>507</u>	<u>3,035</u>	<u>10,444</u>	<u>900,164</u>	<u>-</u>	<u>15,930</u>	<u>9,949</u>
<u>\$ 507</u>	<u>\$ 3,035</u>	<u>\$ 50,781</u>	<u>\$ 900,164</u>	<u>\$ 7,600</u>	<u>\$ 15,930</u>	<u>\$ 9,949</u>

(continued)

KAUFMAN COUNTY, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

SEPTEMBER 30, 2012

	Juvenile Case Manager	Library Grant	Gates Foundation Grant	Lone Star Libraries Grant
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 1,963	\$ -	\$ -	\$ 22
Investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Due from other governments	-	-	-	-
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	-	-	-	-
Accrued liabilities	-	-	-	-
Due to other governments	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Restricted	1,963	-	-	22
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,963</u>	<u>-</u>	<u>-</u>	<u>22</u>
Total liabilities and fund balances	<u>\$ 1,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22</u>

<u>Indigent Defense Task Force</u>	<u>Technology Upgrade Project</u>	<u>JAG Grant</u>	<u>LEOSE Training</u>	<u>County & District Court Technology</u>	<u>JP Technology</u>	<u>Records Archive</u>
\$ -	\$ -	\$ 11,304	\$ 17,386	\$ 9,983	\$ 224,605	\$ 235,599
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,304</u>	<u>\$ 17,386</u>	<u>\$ 9,983</u>	<u>\$ 224,605</u>	<u>\$ 235,599</u>
-	-	-	-	-	-	2,194
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,194</u>
-	-	11,304	17,386	9,983	224,605	233,405
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>11,304</u>	<u>17,386</u>	<u>9,983</u>	<u>224,605</u>	<u>233,405</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,304</u>	<u>\$ 17,386</u>	<u>\$ 9,983</u>	<u>\$ 224,605</u>	<u>\$ 235,599</u>

(continued)

KAUFMAN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
(Continued)
SEPTEMBER 30, 2012

	<u>J. Frank Dobie Library</u>	<u>SCAAP Grant</u>	<u>Total Other Nongovernmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 31,342	\$ 2,361,546
Investments	-	-	825,000
Receivables:			
Accounts	-	-	4,731
Due from other governments	-	-	7,500
Due from other funds	<u>-</u>	<u>-</u>	<u>40,337</u>
Total assets	<u>\$ -</u>	<u>\$ 31,342</u>	<u>\$ 3,239,114</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	-	87,272
Accrued liabilities	-	-	10,927
Due to other governments	-	-	6,060
Due to other funds	-	-	40,437
Deferred revenue	<u>-</u>	<u>31,510</u>	<u>31,510</u>
Total liabilities	<u>-</u>	<u>31,510</u>	<u>176,206</u>
Fund balances:			
Restricted	-	-	3,063,076
Unassigned	<u>-</u>	<u>(168)</u>	<u>(168)</u>
Total fund balances	<u>-</u>	<u>(168)</u>	<u>3,062,908</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 31,342</u>	<u>\$ 3,239,114</u>

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KAUFMAN COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Sheriff Federal Forfeitures</u>	<u>Sheriff State Forfeitures</u>	<u>District Attorney Forfeitures</u>
REVENUES			
License and permits	\$ -	\$ -	\$ -
Fees of office	-	-	-
Forfeitures	-	82,927	50,228
Intergovernmental	-	38,291	-
Investment income	-	-	755
Miscellaneous	<u>52,692</u>	<u>-</u>	<u>-</u>
Total revenues	<u>52,692</u>	<u>121,218</u>	<u>50,983</u>
EXPENDITURES			
General government	-	-	-
Public safety and corrections	-	175,049	-
Judicial	-	-	72,332
Community services	-	-	-
Capital outlay	<u>28,742</u>	<u>89,756</u>	<u>14,369</u>
Total expenditures	<u>28,742</u>	<u>264,805</u>	<u>86,701</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>23,950</u>	<u>(143,587)</u>	<u>(35,718)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	23,950	(143,587)	(35,718)
FUND BALANCES, BEGINNING	<u>36,332</u>	<u>213,535</u>	<u>109,599</u>
FUND BALANCES, ENDING	<u>\$ 60,282</u>	<u>\$ 69,948</u>	<u>\$ 73,881</u>

<u>Law Library</u>	<u>Voter Registration</u>	<u>Juvenile Probation</u>	<u>Appellate Justice System</u>	<u>Records Management</u>	<u>Library Memorials</u>	<u>Courthouse Security</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
74,030	-	19,366	10,631	166,894	-	75,014
-	-	-	-	-	-	-
-	17,262	600,666	-	-	-	-
2,217	56	-	-	2,208	-	612
-	-	27,418	-	-	690	-
<u>76,247</u>	<u>17,318</u>	<u>647,450</u>	<u>10,631</u>	<u>169,102</u>	<u>690</u>	<u>75,626</u>
-	16,830	-	-	102,804	-	-
-	-	1,075,471	-	-	-	-
80,729	-	13,000	8,988	-	-	195,699
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>80,729</u>	<u>16,830</u>	<u>1,088,471</u>	<u>8,988</u>	<u>102,804</u>	<u>-</u>	<u>195,699</u>
(4,482)	488	(441,021)	1,643	66,298	690	(120,073)
-	-	518,708	-	-	-	-
-	-	-	-	-	-	-
-	-	518,708	-	-	-	-
(4,482)	488	77,687	1,643	66,298	690	(120,073)
<u>288,826</u>	<u>4,906</u>	<u>8,728</u>	<u>5,902</u>	<u>274,742</u>	<u>22,106</u>	<u>180,474</u>
<u>\$ 284,344</u>	<u>\$ 5,394</u>	<u>\$ 86,415</u>	<u>\$ 7,545</u>	<u>\$ 341,040</u>	<u>\$ 22,796</u>	<u>\$ 60,401</u>

(continued)

KAUFMAN COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS
(Continued)**

	Records Management and Preservation	District Clerk Records Management and Preservation	Fire Code	CCL Diversion Court
REVENUES				
License and permits	\$ -	\$ -	\$ 42,286	\$ -
Fees of office	35,185	27,953	-	9,159
Forfeitures	-	-	-	-
Intergovernmental	-	-	-	-
Investment income	2,406	709	-	-
Miscellaneous	-	-	-	-
Total revenues	37,591	28,662	42,286	9,159
EXPENDITURES				
General government	-	6,901	2,625	-
Public safety and corrections	-	-	175	-
Judicial	-	-	-	12,194
Community services	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	6,901	2,800	12,194
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	37,591	21,761	39,486	(3,035)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	37,591	21,761	39,486	(3,035)
FUND BALANCES, BEGINNING	312,850	79,444	79,965	44,271
FUND BALANCES, ENDING	\$ 350,441	\$ 101,205	\$ 119,451	\$ 41,236

<u>Star Program</u>	<u>Constable Pct. 4 Forfeitures</u>	<u>Justice Court Building Security</u>	<u>Construction Projects</u>	<u>Texas Water Improvement</u>	<u>Historical Society</u>	<u>Farm Museum</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	10,751	-	-	4,050	-
-	-	-	-	-	-	-
-	-	-	-	23,500	-	4,050
-	279	-	-	-	106	85
<u>150</u>	<u>2,255</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>150</u>	<u>2,534</u>	<u>10,751</u>	<u>-</u>	<u>23,500</u>	<u>4,156</u>	<u>4,135</u>
-	-	-	-	-	1,289	-
-	-	-	-	23,500	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>27,476</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>27,476</u>	<u>23,500</u>	<u>1,289</u>	<u>-</u>
<u>150</u>	<u>2,534</u>	<u>10,751</u>	<u>(27,476)</u>	<u>-</u>	<u>2,867</u>	<u>4,135</u>
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,795)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,795)</u>
150	2,534	10,751	(27,476)	-	2,867	(2,660)
<u>357</u>	<u>501</u>	<u>(307)</u>	<u>927,640</u>	<u>-</u>	<u>13,063</u>	<u>12,609</u>
<u>\$ 507</u>	<u>\$ 3,035</u>	<u>\$ 10,444</u>	<u>\$ 900,164</u>	<u>\$ -</u>	<u>\$ 15,930</u>	<u>\$ 9,949</u>

(continued)

KAUFMAN COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Juvenile Case Manager	Library Grant	Gates Foundation Grant	Lone Star Libraries Grant
REVENUES				
License and permits	\$ -	\$ -	\$ -	\$ -
Fees of office	-	-	-	-
Forfeitures	-	-	-	-
Intergovernmental	-	-	-	360
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	-	360
EXPENDITURES				
General government	-	1,095	-	-
Public safety and corrections	-	-	-	-
Judicial	-	-	-	-
Community services	-	-	-	466
Capital outlay	-	-	-	-
Total expenditures	-	1,095	-	466
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,095)	-	(106)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	19
Operating transfers out	-	(511)	(19)	-
Total other financing sources (uses)	-	(511)	(19)	19
NET CHANGE IN FUND BALANCES	-	(1,606)	(19)	(87)
FUND BALANCES, BEGINNING	1,963	1,606	19	109
FUND BALANCES, ENDING	\$ 1,963	\$ -	\$ -	\$ 22

<u>Indigent Defense Task Force</u>	<u>Technology Upgrade Project</u>	<u>JAG Grant</u>	<u>LEOSE Training</u>	<u>County & District Court Technology</u>	<u>JP Technology</u>	<u>Records Archive</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	3,216	46,453	111,962
-	-	-	-	-	-	-
-	-	-	15,181	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>15,181</u>	<u>3,216</u>	<u>46,453</u>	<u>111,962</u>
-	-	-	-	-	-	-
-	-	-	22,683	-	-	-
-	-	-	-	-	10,262	6,146
-	-	-	-	-	-	-
-	-	-	-	-	48,297	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>22,683</u>	<u>-</u>	<u>58,559</u>	<u>6,146</u>
-	-	-	-	-	-	-
-	-	-	(7,502)	3,216	(12,106)	105,816
-	-	-	-	-	-	-
<u>(4,026)</u>	<u>(8,275)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(4,026)</u>	<u>(8,275)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(4,026)	(8,275)	-	(7,502)	3,216	(12,106)	105,816
<u>4,026</u>	<u>8,275</u>	<u>11,304</u>	<u>24,888</u>	<u>6,767</u>	<u>236,711</u>	<u>127,589</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,304</u>	<u>\$ 17,386</u>	<u>\$ 9,983</u>	<u>\$ 224,605</u>	<u>\$ 233,405</u>

(continued)

KAUFMAN COUNTY, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>J. Frank Dobie Library</u>	<u>SCAAP Grant</u>	<u>Total Other Nongovernmental Funds</u>
REVENUES			
License and permits	\$ -	\$ -	\$ 42,286
Fees of office	-	-	594,664
Forfeitures	-	-	133,155
Intergovernmental	-	3,908	703,218
Investment income	-	-	9,433
Miscellaneous	-	-	83,205
Total revenues	<u>-</u>	<u>3,908</u>	<u>1,565,961</u>
EXPENDITURES			
General government	159	-	131,703
Public safety and corrections	-	-	1,296,878
Judicial	-	3,908	403,258
Community services	-	-	466
Capital outlay	-	-	208,640
Total expenditures	<u>159</u>	<u>3,908</u>	<u>2,040,945</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(159)</u>	<u>-</u>	<u>(474,984)</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	518,727
Operating transfers out	<u>(3)</u>	<u>-</u>	<u>(19,629)</u>
Total other financing sources (uses)	<u>(3)</u>	<u>-</u>	<u>499,098</u>
NET CHANGE IN FUND BALANCES	<u>(162)</u>	<u>-</u>	<u>24,114</u>
FUND BALANCES, BEGINNING	<u>162</u>	<u>(168)</u>	<u>3,038,794</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$(168)</u>	<u>\$ 3,062,908</u>

**DEBT SERVICE
BUDGET TO ACTUAL**

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KAUFMAN COUNTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL**

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 2,103,540	\$ 2,103,540	\$ 2,098,549	\$(4,991)
Investment income	<u>2,750</u>	<u>2,750</u>	<u>3,213</u>	<u>463</u>
Total revenues	<u>2,106,290</u>	<u>2,106,290</u>	<u>2,101,762</u>	<u>(4,528)</u>
EXPENDITURES				
Debt service				
Principal	1,385,000	1,385,000	15,125,000	(13,740,000)
Interest and fiscal charges	<u>714,885</u>	<u>714,885</u>	<u>995,902</u>	<u>(281,017)</u>
Total expenditures	<u>2,099,885</u>	<u>2,099,885</u>	<u>16,120,902</u>	<u>(14,021,017)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,405</u>	<u>6,405</u>	<u>(14,019,140)</u>	<u>(14,025,545)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long term debt	-	-	13,585,000	13,585,000
Premium on issuance of debt	<u>-</u>	<u>-</u>	<u>493,029</u>	<u>493,029</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>14,078,029</u>	<u>14,078,029</u>
NET CHANGE IN FUND BALANCES	6,405	6,405	58,889	52,484
FUND BALANCES, BEGINNING	<u>1,310,650</u>	<u>1,310,650</u>	<u>62,371</u>	<u>(1,248,279)</u>
FUND BALANCES, ENDING	<u>\$ 1,317,055</u>	<u>\$ 1,317,055</u>	<u>\$ 121,260</u>	<u>\$(1,195,795)</u>

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

To the Honorable Commissioners' Court
of Kaufman County, Texas
Kaufman, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas as of and for the year ended September 30, 2012, which collectively comprise Kaufman County, Texas' basic financial statements and have issued our report thereon dated July 25, 2013. 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

Management of Kaufman County, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Kaufman County, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kaufman County, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kaufman County, Texas' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Items 2012-1, 2012-2, 2012-3, 2012-4, 2012-5, and 2012-6 to be material weaknesses.

Compliance and Other Matters

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

Kaufman County, Texas' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Kaufman County, Texas' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Commissioners' Court, others within the entity, 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.

Pattillo, Brown & Hill, L.L.P.

July 25, 2013

KAUFMAN COUNTY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2012 – 1:

Credit Card Policy

Condition:

During credit card testing, we noted that the County does not have written credit card procedures. It was also noted that there are unpaid balances and late charges on some credit cards. Also, many County departments do not have credit card logs for documenting use of various County cards. We also found that several purchases are approved after a purchase was made.

Criteria:

The County should not be carrying unpaid balances on County issued credit cards. The balances should be paid in full with each billing cycle.

Cause:

The County does not have strong enough internal controls in place to make sure that all credit card balances are being paid.

Effect:

The County has unpaid balances on some cards and these cards are accruing interest and fees. There are also purchases that do not have original purchase documents available for review.

Recommendation:

We recommend the County adopt a written policy and procedures guide over the use of County credit and purchasing cards.

Management's Response:

Management agrees that written credit card procedures and credit card log sheets should be utilized in all County departments.

Credit card policy will be written and implemented, along with creation of credit card log sheet that will list who checks out the card and when the card is returned.

Credit card statements will be matched up with the original receipts before approval of payment to the vendor.

Master list of all credit cards should be kept by the Purchasing Agent and County Auditor.

Plans to secure a Procurement card for the County are in progress at this time, which would eliminate the use or need for any other credit cards. The new financial software has the ability to download the procurement card purchases into the accounts payable module for ease of sending reports to departments for their approval and any changes regarding appropriate line items charged for the expenditures.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

Contact Person Responsible

for Corrective Action:

Purchasing Agent for procurement of goods/services
County Auditor for payment to vendors

Anticipated Completion

Date:

September 30, 2013

Item 2012-2:

Recording of Grant Transactions

Condition:

While performing test work over grants, we noted that there were several instances of the County netting receipts of grant proceeds against the expenses that generated the grant revenue.

Criteria:

Although the effect of netting revenues and expenditures has a zero effect on the changes in fund balances, netting these two items presents reporting issues. Grants generate revenues based upon expenditures. These two items should be shown separately of each other in order to comply with generally accepted accounting principles.

Cause:

Grant expenditures and revenues are being netted together as grant revenues are receipted by the County.

Effect:

Revenues and expenditures are being understated on the general ledger.

Recommendation:

The County needs to book receivables each time a grant request is sent in. This will allow the revenue portion to be booked in the proper line item. By booking a receivable, revenues and expenditures will be shown properly in the general ledger. The County has made improvements but PBH still noted many items not booked correctly.

Management's Response:

Management agrees with the proper receipting and expending of grant proceeds.

New financial software will allow establishment of separate funds and budgets to track all grant revenues and expenditures.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Contact Person Responsible

for Corrective Action:

County Treasurer for receipting grant monies.
County Auditor for expending grant monies
County Auditor for establishing the funds and budgets

Anticipated Completion

Date:

September 30, 2013

Item 2012-3:

Accounting for Employee Compensated Absences

Condition:

While analyzing compensated absences, we noticed that the County is not following its policy regarding compensated absences earned by employees. On the schedule provided during the audit, it appears that there are several employees accruing more sick time and vacation balances than are allowable under the policy. There are also issues with the accruing and use of comp time by County employees.

Criteria:

The County should verify that all employees are accruing the proper amount of vacation, sick time and comp time. There should not be employees that have more than the stated amounts per the policy on the benefits worksheet. The County's accrual of compensated absences should mirror the policy that was adopted by the Commissioners' Court.

Cause:

The County is not following the policy it has set up for accrual of compensated absences. The benefits department states that elected officials are overriding the system by allowing employees to carry more time than allowed by the policy. The benefits department also feels that they do not have the authority to tell elected officials that they have employees with more hours than are allowed by policy.

Effect:

The County's benefits worksheet has employees with more time than allowed by County policy. It also has allowed employees to be compensated for balances that are in excess of County policy limits.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Recommendation:

We recommend the benefits worksheet be kept in a format that is easy to track and review. The worksheet should go in and lower all employees' hours that are above the County's policy. We also recommend the benefits worksheet be updated on a regular basis and reviewed by Commissioners' Court. With a worksheet that is useable and review of the worksheet by Commissioners' Court, the County's accrual of compensated absences will be more accurate and will follow County policies.

Management's Response:

Management agrees with this finding. Implementation of the new financial software includes a new payroll module. All employees' accrued time will be established and tracked with the use of the new software.

County Auditor will assist in monitoring these hours as a part of the internal audit process.

County Treasurer would like to meet with department heads to insure we follow the policy adopted by Commissioners' Court. If the policy needs to be changed, then this can be done by amending the current policy.

**Contact Person Responsible
for Corrective Action:**

County Treasurer
County Auditor – for purposes of internal audits

Anticipated Completion

Date:

March 2013 – six-month implementation of new software. As of this date, the County did not implement the system but it should be in use in June 2013.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2012-4:

Internal Controls Over Payroll

Condition:

Payroll is the single largest expenditure at the County. Currently, this function is being performed by essentially one person. The payroll administrator enters time, prints the checks, signs the checks and distributes the checks. This same person also has the ability to change pay rates within the system without any review. The payroll checks are supposed to be being signed by the County Treasurer and County Auditor. However, the payroll administrator has signature stamps for the Treasurer. She stamps the checks after they are prepared and the Treasurer does not review the checks. Also, the check stamp is kept in an unlocked desk drawer.

Criteria:

Segregation of duties and proper review of payroll greatly reduce the risk of fraud or errors concerning payroll. The County needs to set up a payroll processing policy that incorporates proper controls and review. A change in payroll rates should be entered by someone different than processes the checks. The payroll register should be reviewed by the parties signing the checks prior to the checks being written. Also, if the checks are distributed by hand, someone other than the payroll processor should distribute the checks.

Cause:

There are not enough segregation of duties and internal controls over payroll.

Effect:

The chances of fraud and errors are greatly increased with a lack of segregation of duties and a lack of internal controls.

Recommendation:

The County needs to review the entire payroll internal control structure and improve its processes. The County needs to look at segregating payroll duties when possible. The policy should provide for a thorough review of payroll registers and checks. The checks should not be printed and signed until reviewed by the County Auditor's Office and the County Treasurers office. There should also be better security over the check stamp in the payroll office. PBH did note the stamp for the checks is no longer in the payroll clerk's possession.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Management's Response:

Management agrees with finding and along with the implementation of a new payroll software module, segregation of duties can be established. New software allows for hierarchy of access and authorization of specific processing payroll and employee maintenance.

Additional review by either the County Treasurer and/or internal audit performed by the County Auditor to insure separation of duties, accuracy of payroll and distribution of pay checks.

With the new software package, the County will have the ability to have all rate changes sent to as many officials as we desire. That would include the Supervisor, County Auditor, County Judge, Human Resources and Treasurer.

Also, a complete payroll edit report is now going to the auditor's office.

Effective immediately, a different employee will maintain the signature stamp and do the stamping. The payroll clerk does not had out the checks except under unusual circumstances.

**Contact Person Responsible
for Corrective Action:**

County Treasurer
County Auditor

Anticipated Completion

Date:

March 2013 – Six-month implementation of new software. As of this date, the County did not implement the system, but it should be used in June 2013.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2012 – 5:

County Fines Receivable

Condition:

The County does not have a report showing all fines owed to the County in a ready to run and useable format. The County has considerable amounts of money due in unpaid fines and fees. Because these reports are not periodically run and properly monitored, it is very difficult to know how much is owed to the County and who owes it. There were also amounts on the list that are well passed the time frame of collectability.

Criteria:

The County should have a good working knowledge of the software that processes and tracks fines and fees owed to the County. This amount shows up in the financial statements as a receivable to the County. This report is what is used to accrue the amount owed to the County of the financial statements. This report is also what should be used for collection attempts of outstanding balances owed to the County.

Cause:

The County does not have a procedure in place to capture and review amounts owed to the County. The County also has a lot of uncollectable receivables on the report.

Effect:

Amounts owed to the County are not readily known and the balances continue to be uncollected. There are also large amounts of receivables being tracked that are uncollectable.

Recommendation:

The County should have a written policy over amounts owed to the County and collection of those receipts. The policy should detail what reports should be created and the way they should be run. It should also narrate a process for collecting outstanding fines and fees owed to the County. This policy should also document the County's criteria for writing off old receivables that they deem as uncollectable. The County ultimately provided a working list of monies owed to the County. However, it took a long time to get and had to be run with the assistance of a third party. As the County continues to try and grow revenues, collecting old receivables is a great source to pursue. A process over the receivables will ultimately bring in more revenue to the County.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Management's Response: Management agrees with the finding. The County has taken several steps to collect monies owed to the County

New financial software will help track the receivables and a spreadsheet will be provided by the County Auditor's office at the end of each fiscal year to list all the receivables due to the County by the various offices within the County's operations.

**Contact Person Responsible
for Corrective Action:** County Auditor

**Anticipated Completion
Date:** September 30, 2012

Item 2012 – 6: **Capital Assets**

Condition: The County did not have a complete listing of capital assets during audit fieldwork.

Criteria: The County should have a complete listing of capital assets. The complete list should have all County assets listed and put into proper asset classes. This is essential as several of these assets are depreciated each year and that expense is recorded in the government-wide statements.

Cause: The County has recently switched software and is in the process of using the new software to record and classify capital assets. The County does not have a formal process for recording capital assets and maintain the detailed capital asset listing.

Effect: The amounts listed for capital assets and depreciation were not correct.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES

(Continued)

SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Recommendation:

We recommend the County get capital assets in the new software and verify that they are correct and that all assets listed are in service. There should also be a formal process that gets capital assets recorded on the detailed listing. The process should include verification that the asset is either depreciable or nondepreciable. If the asset is depreciable, the process should include making sure the depreciable life follows the capitalization policy adopted by the County. This process can be done once a year and should be reviewed and completed by the time audit fieldwork commences.

Management's Response:

The County has met with their software provider and believe a current, up to date listing of capital assets and their accumulated depreciation has been created and will be used going forward.

**Contact Person Responsible
for Corrective Action:**

Karen Cooper, County Auditor

Anticipated Completion

Date:

July 2013

KAUFMAN COUNTY, TEXAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

**Findings Relating to the Financial Statements Which Are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

Item 2011 – 1:

County JP Offices

Condition:

During the walkthrough of the JP offices, PBH noted that several employees have access to the computer system where tickets are entered and tracked. The system does not have a username or password system currently set up for employees to use when logging in and working in the system. This allows changes to be made within the system that cannot be traced back to a specific employee. We also noted that cash drawers are not locked during the day.

Criteria:

The County's ticket processing system should have a password system in place. This would allow all activity in the system to be traced back to specific employees should errors or issues arise. These logs of activity should also be periodically reviewed and all levels of access should be analyzed on a per employee basis. All cash should be secured at all times in the various offices.

Cause:

There is not a countywide policy that outlines a standard set of office practices that should be used by the various JP offices.

Effect:

There is no way to track employee activity in the ticket software system to see when changes are made or errors are deleted. This leaves the County susceptible to errors in the system that are not easily tracked. It also leaves cash susceptible to theft.

Recommendation:

We recommend the County create and implement a JP standard set of office practices for all JP offices. These processes should be very detailed and the processes that are created should be periodically reviewed to insure that they are being followed. These processes should also provide a way to safeguard cash being held in the offices.

Current Status:

This matter has been addressed as of September 30, 2012.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 2:

Purchasing Policy

Condition:

During our review of cash disbursement controls, we became aware that the County has no written policies regarding their purchasing procedures. Although the policies may be orally communicated and understood by accounting personnel, these procedures should be documented to prevent any misunderstanding of the policies as well as aid in the training of new personnel.

Criteria:

As a matter of best policies, a written purchasing policy is instrumental in the area of cash disbursements. It sets a written plan for employees to follow when it comes to purchasing goods and services. A written policy will help reduce unauthorized purchases and errors in the purchasing area.

Cause:

The County does not have a written purchasing policy that has been adopted by the County.

Effect:

Without a written purchasing policy, the risk of errors in the purchasing area greatly increase. There are no standards for the method of how items are purchased and what the requirements are for purchasing goods or services.

Recommendation:

We recommend the County create and adopt a written set of purchasing policies.

Current Status:

The County adopted a policy on June 11, 2012 and this matter is resolved.

Item 2011 – 3:

Credit Card Policy

Condition:

During credit card testing, we noted that the County does not have written credit card procedures. It was also noted that there are unpaid balances and late charges on some credit cards. Also, many County departments do not have credit card logs for documenting use of various County cards. We also found that several purchases are approved after a purchase was made.

Effect:

The County has unpaid balances on some cards and these cards are accruing interest and fees. There are also purchases that do not have original purchase documents available for review.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 3: (Continued)

Credit Card Policy

Recommendation:

We recommend the County adopt a written policy and procedures guide over the use of County credit and purchasing cards.

Current Status:

See current finding Item 2012-1

Item 2011 – 4:

Recording of Grant Transactions

Condition:

While performing test work over grants, we noted that there were several instances of the County netting receipts of grant proceeds against the expenses that generated the grant revenue.

Criteria:

Although the effect of netting revenues and expenditures has a zero effect on the changes in fund balances, netting these two items presents reporting issues. Grants generate revenues based upon expenditures. These two items should be shown separately of each other in order to comply with generally accepted accounting principles.

Cause:

Grant expenditures and revenues are being netted together as grant revenues are receipted by the County.

Effect:

Revenues and expenditures are being understated on the general ledger.

Recommendation:

The County needs to book receivables each time a grant request is sent in. This will allow the revenue portion to be booked in the proper line item. By booking a receivable, revenues and expenditures will be shown properly in the general ledger.

Current Status:

See current finding Item 2012-2

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 5:

Refunds of Taxes in the Tax Office

Condition:

During FY 2011, there was an instance of fraud at the Tax office. An employee made a refund check out and ran the transaction through a dormant bank account. The employee then altered the bank statement to make the canceled check look like it was made out to a legitimate business.

Criteria:

There should be a very controlled process over refunds of property tax payments. They should be reviewed at and approved by various levels of management and documented that they are valid and that they are going to the correct tax payer. There should also be a process in place over opening and closing bank accounts. All accounts that are opened or closed should be brought to the attention of Commissioners' Court. The recommendations for opening and closing accounts should be brought to Commissioners' Court by the various department heads.

Cause:

A lack of controls over refunds and closing of County bank accounts led to this issue.

Effect:

The County had an unauthorized tax refund go to an employee. The County has prosecuted the employee based upon an investigation by the Texas Rangers. The employee no longer works for the County and a restitution plan has been put in place for the County to get the unauthorized refund back.

Recommendation:

The County needs to strengthen controls over the refund process. Refunds do not happen often and special attention should be placed on them when they occur. They should be initiated, reviewed and authorized by proper management levels within the Tax office. There also needs to be a policy over the creation and closing of County bank accounts. Both of these items would go a long way in safeguarding County assets.

Current Status:

This matter has been resolved.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 8:

County Fines Receivable

Condition:

The County does not have a report showing all fines owed to the County in a ready to run and useable format. The County has considerable amounts of money due in unpaid fines and fees. Because these reports are not periodically run and properly monitored, it is very difficult to know how much is owed to the County and who owes it. There were also amounts on the list that are well passed the time frame of collectability.

Criteria:

The County should have a good working knowledge of the software that processes and tracks fines and fees owed to the County. This amount shows up in the financial statements as a receivable to the County. This report is what is used to accrue the amount owed to the County of the financial statements. This report is also what should be used for collection attempts of outstanding balances owed to the County.

Cause:

The County does not have a procedure in place to capture and review amounts owed to the County. The County also has a lot of uncollectable receivables on the report.

Effect:

Amounts owed to the County are not readily known and the balances continue to be uncollected. There are also large amounts of receivables being tracked that are uncollectable.

Recommendation:

The County should have a written policy over amounts owed to the County and collection of those receipts. The policy should detail what reports should be created and the way they should be run. It should also narrate a process for collecting outstanding fines and fees owed to the County. This policy should also document the County's criteria for writing off old receivables that they deem as uncollectable. The County ultimately provided a working list of monies owed to the County. However, it took a long time to get and had to be run with the assistance of a third party. As the County continues to try and grow revenues, collecting old receivables is a great source to pursue. A process over the receivables will ultimately bring in more revenue to the County.

Current Status:

See current finding Item 2012-5.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 9:

Unclaimed Restitution

Condition:

In our review of detailed revenue transactions, we found that the County is recording unclaimed restitution as revenue instead of turning the funds over to the State as unclaimed property.

Criteria:

Unclaimed restitution payments are property of another party. The State has very specific rules on dealing with unclaimed property. In order to be in compliance with the State guidelines, the County needs to have a policy that follows the State criteria for unclaimed property.

Cause:

The County does not have a written policy that follows the State guidelines on handling unclaimed restitution.

Effect:

The County is not properly recording the transactions involving unclaimed restitution.

Current Status:

This matter has been resolved as of September 30, 2012.

Item 2011 – 10:

Accounting for Employee Compensated Absences

Condition:

While analyzing compensated absences, we noticed that the County is not following its policy regarding compensated absences earned by employees. On the schedule provided during the audit, it appears that there are several employees accruing more sick time and vacation balances than are allowable under the policy. There are also issues with the accruing and use of comp time by County employees.

Criteria:

The County should verify that all employees are accruing the proper amount of vacation, sick time and comp time. There should not be employees that have more than the stated amounts per the policy on the benefits worksheet. The County's accrual of compensated absences should mirror the policy that was adopted by the Commissioners' Court.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

- Cause:** The County is not following the policy it has set up for accrual of compensated absences. The benefits department states that elected officials are overriding the system by allowing employees to carry more time than allowed by the policy. The benefits department also feels that they do not have the authority to tell elected officials that they have employees with more hours than are allowed by policy.
- Effect:** The County's benefits worksheet has employees with more time than allowed by County policy. It also has allowed employees to be compensated for balances that are in excess of County policy limits.
- Recommendation:** We recommend the benefits worksheet be kept in a format that is easy to track and review. The worksheet should go in and lower all employees' hours that are above the County's policy. We also recommend the benefits worksheet be updated on a regular basis and reviewed by Commissioners' Court. With a worksheet that is useable and review of the worksheet by Commissioners' Court, the County's accrual of compensated absences will be more accurate and will follow County policies.
- Current Status:** See current finding Item 2012-3.

(continued)

KAUFMAN COUNTY, TEXAS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Item 2011 – 11:

Internal Controls Over Payroll

Condition:

Payroll is the single largest expenditure at the County. Currently, this function is being performed by essentially one person. The payroll administrator enters time, prints the checks, signs the checks and distributes the checks. This same person also has the ability to change pay rates within the system without any review. The payroll checks are supposed to be being signed by the County Treasurer and County Auditor. However, the payroll administrator has signature stamps for the Treasurer. She stamps the checks after they are prepared and the Treasurer does not review the checks. Also, the check stamp is kept in an unlocked desk drawer.

Criteria:

Segregation of duties and proper review of payroll greatly reduce the risk of fraud or errors concerning payroll. The County needs to set up a payroll processing policy that incorporates proper controls and review. A change in payroll rates should be entered by someone different than processes the checks. The payroll register should be reviewed by the parties signing the checks prior to the checks being written. Also, if the checks are distributed by hand, someone other than the payroll processor should distribute the checks.

Cause:

There are not enough segregation of duties and internal controls over payroll.

Effect:

The chances of fraud and errors are greatly increased with a lack of segregation of duties and a lack of internal controls.

Recommendation:

The County needs to review the entire payroll internal control structure and improve its processes. The County needs to look at segregating payroll duties when possible. The policy should provide for a thorough review of payroll registers and checks. The checks should not be printed and signed until reviewed by the County Auditor's Office and the County Treasurers office. There should also be better security over the check stamp in the payroll office.

Current Status:

See current finding Item 2012-4.

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