

KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

INTRODUCTORY SECTION

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**KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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KAUFMAN COUNTY, TEXAS
DIRECTORY OF OFFICIALS

Commissioners' Court:

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

Justices of the Peace:

Precinct #1	Mr. Johnny Perry
Precinct #2	Mr. Don Cates
Precinct #3	Mr. James Williams Mr. Mike Smith
Precinct #4	Mr. Glen Bates Mr. Johnny Adams

Constables:

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

86th Judicial District of the State of Texas:

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

KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

Continued

422nd Judicial District of the State of Texas:

District Judge Mr. B. Michael Chitty

Criminal District Attorney
Mr. Ed Walton
Mr. Rick Harrison

District Clerk Ms. Sandra Featherston

Chief Adult Probation Officer Mr. Ben Carmona

Chief Juvenile Probation Officer Ms. Laura Peace

Officials of Kaufman County:

County Court-at-Law Judge Mr. Erleigh Norville-Wiley

County Court-at-Law Judge #2 Mr. David Lewis

County Clerk Ms. Laura Hughes

County Sheriff Mr. David Byrnes

County Tax Assessor-Collector Mr. Dick Murphy

County Treasurer Mr. Johnny Countryman

County Veterans Service Officer Mr. Don Stoy

County Health Officer Dr. William J. Fortner

Indigent Health Care Officer Ms. Vicki Gerner

Public Works Coordinator Ms. Kathy Morris

Fire Marshall Mr. Larry Ewing

Purchasing Agent Mr. Jack Sebastian

FINANCIAL SECTION

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kaufman County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of September 30, 2007, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2008 on our consideration of Kaufman County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion & Analysis on pages 2 through 6, and the required supplementary information on pages 26 through 28, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kaufman County, Texas' basic financial statements. The unaudited statistical data listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Kaufman County, Texas. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The unaudited statistical data listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Henry E. Peters, P.C.

Tyler, Texas
March 18, 2008

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, 2007. This analysis is designed to focus on current activities, resulting changes and currently known facts. Please consider the information presented here, in conjunction with the transmittal letter, financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

The assets of the County exceeded its liabilities at the close of the year by \$15,892,800 (net assets). The balance of unrestricted net assets at year-end was \$7,793,719.

- Total net assets increased by \$8,464,402.
- The County's total liabilities decreased by \$1,659,518 during the fiscal year.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$8,329,663, an increase of \$2,955,549 in comparison with the prior year. The total fund balance is available for spending at the government's discretion (unreserved fund balance).
- At fiscal year-end, unreserved fund balance for the General Fund was \$4,091,124 which represents 14.2% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 7-8 of this report.

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

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

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

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

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

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

The governmental fund financial statements can be found on pages 9-12 of this report.

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

The fiduciary fund financial statements can be found on page 13 of this report.

3) Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-25.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of Kaufman County, assets exceeded liabilities by \$15,892,800 as of September 30, 2007.

The County's investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 51% of net assets, an increase of 22% over the prior year. These assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets increased \$4,687,189 (net) while current and other assets increased \$2,117,695. Cash and investment balances increased primarily due to the County's ability to hold the increase in spending to a level below the increase in revenue, thereby creating a cash reserve for the County's future benefit. Long-term liabilities decreased from prior year by \$1,096,529, due primarily to the pay down of previously incurred debt.

Governmental activities. Governmental activities increased the County's net assets by \$4,028,931. The increase from prior year is due to multiple factors primarily related to the growth in the county population and tax base. These factors include increased property taxes coupled with increases in fines, fees and charges for services. Accordingly, County revenues increased by \$5,287,394 due largely to these factors. Additionally, the adjustment for infrastructure increased total net assets by \$4,435,471.

Kaufman County's Net Assets

	Governmental Activities 2007	Governmental Activities 2006
Current and other assets	\$ 10,201,132	\$ 8,083,437
Capital assets	<u>30,327,149</u>	<u>25,639,960</u>
Total assets	40,528,281	33,723,397
Long-term liabilities	22,982,524	24,079,053
Other liabilities	<u>1,652,957</u>	<u>2,215,946</u>
Total liabilities	24,635,481	26,294,999
Net assets:		
Invested in capital assets, net of related debt	8,099,081	2,182,709
Unrestricted	<u>7,793,719</u>	<u>5,245,689</u>
Total net assets	<u>\$ 15,892,800</u>	<u>\$ 7,428,398</u>

Kaufman County's Changes in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
REVENUES		
General revenues:		
Property taxes	\$ 28,712,693	\$ 24,816,216
Fees, fines and charges for service	10,637,181	9,816,131
Grants and contributions	1,158,569	1,774,351
Investment income	467,927	283,602
Miscellaneous	1,511,852	343,695
Gain on disposal of capital assets	<u>34,271</u>	<u>201,104</u>
Total revenues	42,522,493	37,235,099
EXPENSES		
General government	12,407,093	10,315,712
Public safety and corrections	12,647,977	13,214,917
Judicial	4,237,109	3,626,841
Environmental services	6,078,345	6,061,182
Health and human services	1,821,733	1,760,123
Interest and fiscal charges	1,025,224	961,923
Community service	<u>276,081</u>	<u>394,622</u>
Total expenses	38,493,562	36,335,320
INCREASE IN NET ASSETS	4,028,931	899,779
NET ASSETS, BEGINNING PRIOR PERIOD ADJUSTMENT (see capital asset section)	7,428,398	6,528,619
	<u>4,435,471</u>	<u>-</u>
NET ASSETS, ENDING	<u>\$ 15,892,800</u>	<u>\$ 7,428,398</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Kaufman County. At the end of the fiscal year, unreserved total fund balance of the General Fund was \$4,091,124. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved total fund balance represents 14.2% of total General Fund expenditures.

The fund balance of the General Fund increased by \$2,780,426 during the fiscal year. Key factors of the increase are due to the general growth of the County, resulting in increased general fund revenues of \$4,231,058, while holding the increase in expenditures to only \$1,129,449. The resulting excess of revenues has allowed the County to slightly build up its needed reserves to offset possible unforeseen items in the future.

The General Road and Bridge Fund had an ending fund balance of \$73,393. The reporting requirements under GASB 34 require that the General Road and Bridge Fund be reported separately from the other four road and bridges funds if it qualifies as a Major Fund. The General Road and Bridge Fund is typically not expected to carry a large fund balance, since it functions mainly as a pass-through fund to intake Road and Bridge taxes and other revenues and pass them on to the individual Road and Bridge precinct funds. Refer to Note 9 on page 23 for more details of transfers between funds.

General Fund Budgetary Highlights

Differences between the actual and the final amended budget were significant (\$2,262,586 better than budgeted). This is briefly summarized as follows:

- The growth of the County resulted in increases in fines, fees and charges for services. One of the major areas of this increase resulted from revenues for housing several inmates from other counties.
- Positive variances between actual and budget were noted in several expenditure categories, most notably in public safety, capital outlay and general administration, as the County's elected officials and department heads made a conscious and successful effort to control costs in order to provide the County with its needed reserves.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Kaufman County's investment in capital assets for its governmental activities as of fiscal year end was \$30,327,149 (net of accumulated depreciation), an increase of \$4,687,189 from prior year. The increase is largely due to the restatement of the September 30, 2006 financial statements, which were restated to reflect the addition of the County's infrastructure. This restatement is due to the implementation of GASB Statement No. 34, which requires governments to capitalize infrastructure assets, which prior to implementation, were expenses in the year acquired. This investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, roads, bridges and office furniture and equipment.

Kaufman County's Capital Assets

	Capital Assets 2007	Capital Assets 2006
Land	\$ 193,625	\$ 193,625
Construction in progress	-	188,233
Buildings, improvements, furniture, fixtures and equipment	32,295,525	31,016,841
Infrastructure	12,147,226	-
Machinery and equipment	7,873,933	6,843,191
	52,510,309	38,241,890
Less: accumulated depreciation	(22,183,160)	(12,601,930)
Total capital assets, net	\$ 30,327,149	\$ 25,639,960

The County had the following additions to fixed assets:

Land	\$ -	\$ 43,189
Construction in progress	-	188,233
Buildings	37,684	115,687
Purchase of new vehicles	1,401,224	717,471
Purchase of road and bridge equipment	486,162	1,133,246
Furniture and fixtures	1,058,465	1,964,807

Long-term debt. At the end of the fiscal year, the County had total debt outstanding of \$22,982,522, which is a decrease of \$1,096,529 from prior year.

Kaufman County's Outstanding Debt

	2007	2006
Certificates of obligation	\$20,465,000	\$ 21,280,000
Notes payable	564,323	726,822
Compensated absences	948,080	1,003,658
Capital leases	1,005,121	1,068,573
Total Outstanding Debt	\$22,982,524	\$ 24,079,053

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 \$629,582,097, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 7 on page 22.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Continued population growth will have a positive economic impact on the next fiscal year.
- Estimated revenue for fiscal year 2008 is \$35,131,821 for the General Fund and estimated expenditures are \$34,326,379. The total tax rate was decreased from \$.5622 to \$.5615.

REQUESTS FOR INFORMATION

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

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KAUFMAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	<u>Primary Government</u>	
	<u>Governmental Activities</u>	<u>Total</u>
ASSETS		
Cash and cash equivalents	\$ 4,004,726	\$ 4,004,726
Investments	5,335,000	5,335,000
Taxes receivable, net of allowance for uncollectibles	623,794	623,794
Other receivables, net of allowance for uncollectibles	216,271	216,271
Restricted cash	21,341	21,341
Capital assets, net:		
Not subject to depreciation	193,625	193,625
Subject to depreciation	30,133,524	30,133,524
Total Assets	<u>\$ 40,528,281</u>	<u>\$ 40,528,281</u>
LIABILITIES		
Accounts payable	\$ 965,824	\$ 965,824
Accrued liabilities	687,133	687,133
Long-term liabilities:		
Portion payable within one year:		
Compensated absences payable	284,424	284,424
Capital leases	617,314	617,314
Notes payable	174,683	174,683
Certificates of obligation payable	1,155,000	1,155,000
Portion payable after one year:		
Compensated absences payable	663,656	663,656
Capital leases	387,807	387,807
Notes payable	389,640	389,640
Certificates of obligation payable	19,310,000	19,310,000
Total Liabilities	<u>\$ 24,635,481</u>	<u>\$ 24,635,481</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 8,119,551	\$ 8,119,551
Unrestricted	7,773,249	7,773,249
Total Net Assets	<u>\$ 15,892,800</u>	<u>\$ 15,892,800</u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense and Changes in Net Assets</u>	
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Total</u>
Primary Government:						
Governmental activities:						
General government	\$ 12,407,093	\$ 2,531,153	\$ 7,688	\$ -	\$ (9,868,252)	\$ (9,868,252)
Public safety and corrections	12,647,977	1,410,415	18,216	131,023	(11,088,323)	(11,088,323)
Judicial	4,237,109	3,804,610	130,660	-	(301,839)	(301,839)
Community services	276,081	76,259	261,691	-	61,869	61,869
Environmental services	6,078,345	2,814,744	120,036	-	(3,143,565)	(3,143,565)
Health and human services	1,821,733	-	489,255	-	(1,332,478)	(1,332,478)
Interest and fiscal charges	1,025,224	-	-	-	(1,025,224)	(1,025,224)
Total governmental activities	<u>38,493,562</u>	<u>10,637,181</u>	<u>1,027,546</u>	<u>131,023</u>	<u>(26,697,812)</u>	<u>(26,697,812)</u>
Total Primary Government	<u>\$ 38,493,562</u>	<u>\$ 10,637,181</u>	<u>\$ 1,027,546</u>	<u>\$ 131,023</u>	<u>\$ (26,697,812)</u>	<u>\$ (26,697,812)</u>
General Revenues:						
Property taxes					\$ 28,712,693	\$ 28,712,693
Investment income					467,927	467,927
Gain on disposal of capital assets					34,271	34,271
Miscellaneous					1,511,852	1,511,852
Total general revenues					<u>30,726,743</u>	<u>30,726,743</u>
Change in net assets					4,028,931	4,028,931
Net assets, beginning of year					7,428,398	7,428,398
Prior period adjustment (See Note 12)					4,435,471	4,435,471
Net assets, end of year					<u>\$ 15,892,800</u>	<u>\$ 15,892,800</u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	General	General Road & Bridge	Construction Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,588,532	\$ 38,371	\$ 13,194	\$ 2,385,970	\$ 4,026,067
Investments	3,060,000	-	1,350,000	925,000	5,335,000
Receivables:					
Taxes	1,894,979	286,642	-	-	2,181,621
Accounts receivable	216,271	-	-	-	216,271
Total Assets	<u>\$ 6,759,782</u>	<u>\$ 325,013</u>	<u>\$ 1,363,194</u>	<u>\$ 3,310,970</u>	<u>\$ 11,758,959</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 449,902	\$ -	\$ -	\$ 412,196	\$ 862,098
Accrued liabilities	590,311	-	-	96,822	687,133
Deferred revenues	1,628,445	251,620	-	-	1,880,065
Total Liabilities	<u>2,668,658</u>	<u>251,620</u>	<u>-</u>	<u>509,018</u>	<u>3,429,296</u>
Fund Balances:					
Unreserved	4,091,124	73,393	1,363,194	2,801,952	8,329,663
Total Fund Balances	<u>4,091,124</u>	<u>73,393</u>	<u>1,363,194</u>	<u>2,801,952</u>	<u>8,329,663</u>
Total Liabilities and Fund Balances	<u>\$ 6,759,782</u>	<u>\$ 325,013</u>	<u>\$ 1,363,194</u>	<u>\$ 3,310,970</u>	<u>\$ 11,758,959</u>

See accompanying notes to financial statements.

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

SEPTEMBER 30, 2007

Amounts reported for governmental activities in the statement of net assets (page 7) are different because:

Total Fund Balance - Governmental Funds (page 9)	\$ 8,329,663
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Governmental capital assets	\$52,510,309
Less: Accumulated depreciation	<u>(22,183,160)</u> 30,327,149
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	
	322,238
Long-term liabilities, including certificates of obligation payable and compensated absences, are not due and payable in the current year and accordingly are not reported in the governmental funds	
	(22,982,524)
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>(103,726)</u>
Net Assets of Governmental Activities (page 7)	<u><u>\$15,892,800</u></u>

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

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

	General	General Road & Bridge	Construction Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 23,203,129	\$ 3,453,184	\$ -	\$ 1,732,451	\$ 28,388,764
Fees, fines and charges for services	6,252,764	2,637,521	-	805,364	9,695,649
Intergovernmental	264,008	-	-	976,358	1,240,366
County matching funds	-	-	-	4,402	4,402
Miscellaneous	2,602,076	13,318	-	384,900	3,000,294
Total Revenues	<u>32,321,977</u>	<u>6,104,023</u>	<u>-</u>	<u>3,903,475</u>	<u>42,329,475</u>
EXPENDITURES					
Current:					
General government	9,301,994	-	-	480,222	9,782,216
Public safety and corrections	12,784,539	-	-	152,057	12,936,596
Judicial	3,960,110	-	-	280,512	4,240,622
Community service	-	-	-	157,074	157,074
Environmental service	970,739	74,429	-	5,422,817	6,467,985
Health and human service	727,762	-	-	953,572	1,681,334
Capital outlay	935,850	-	374,463	777,002	2,087,315
Debt service:					
Principal	180,560	-	-	815,000	995,560
Interest and fiscal charges	54,497	-	-	970,727	1,025,224
Total Expenditures	<u>28,916,051</u>	<u>74,429</u>	<u>374,463</u>	<u>10,008,983</u>	<u>39,373,926</u>
Excess (deficiency) of revenues over expenditures	<u>3,405,926</u>	<u>6,029,594</u>	<u>(374,463)</u>	<u>(6,105,508)</u>	<u>2,955,549</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	6,677,361	6,677,361
Operating transfers out	(625,500)	(6,051,861)	-	-	(6,677,361)
Total other financing sources (uses)	<u>(625,500)</u>	<u>(6,051,861)</u>	<u>-</u>	<u>6,677,361</u>	<u>-</u>
Net change in fund balance	2,780,426	(22,267)	(374,463)	571,853	2,955,549
Fund balance at beginning of year	<u>1,310,698</u>	<u>95,660</u>	<u>1,737,657</u>	<u>2,230,099</u>	<u>5,374,114</u>
Fund balance at end of year	<u>\$ 4,091,124</u>	<u>\$ 73,393</u>	<u>\$ 1,363,194</u>	<u>\$ 2,801,952</u>	<u>\$ 8,329,663</u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

SEPTEMBER 30, 2007

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

Net change in fund balance - total governmental funds (page 11)		\$ 2,955,549
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:		
Expenditures for capital assets	\$ 2,006,939	
Less: Current year depreciation	<u>(2,234,615)</u>	(227,676)
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year.		
		55,578
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.		
		1,357,846
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.		
		22,727
Expenses reported in the statement of activities as a result of the full accrual method of accounting are not reported as expenditures in the governmental funds, which are reported under the modified accrual method.		
		<u>(135,093)</u>
Change in net assets of governmental activities (page 8)		<u><u>\$ 4,028,931</u></u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2007

	<u>Tax Assessor</u>	<u>Sheriff</u>	<u>District Clerk</u>	<u>County Clerk</u>	<u>District Attorney</u>	<u>Insurance</u>	<u>Employee Savings</u>	<u>Total</u>
ASSETS								
Cash	\$2,583,414	\$325,377	\$1,492,674	\$154,097	\$ 249,246	\$ 14,515	\$ 229,244	\$5,048,567
Investments	-	-	2,883,955	634,839	-	-	-	3,518,794
Total Assets	<u>\$2,583,414</u>	<u>\$325,377</u>	<u>\$4,376,629</u>	<u>\$788,936</u>	<u>\$ 249,246</u>	<u>\$ 14,515</u>	<u>\$ 229,244</u>	<u>\$8,567,361</u>
LIABILITIES								
Due to other parties	\$2,583,414	\$325,377	\$4,376,629	\$788,936	\$ 249,246	\$ 14,515	\$ 229,244	\$8,567,361
Total Liabilities	<u>\$2,583,414</u>	<u>\$325,377</u>	<u>\$4,376,629</u>	<u>\$788,936</u>	<u>\$ 249,246</u>	<u>\$ 14,515</u>	<u>\$ 229,244</u>	<u>\$8,567,361</u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kaufman County was incorporated in 1849 as a public corporation and political subdivision of the State of Texas. The Commissioners' Court is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services, among others, as authorized by the statutes of the State of Texas: general administration (Commissioners' Court, County Judge and County Clerk), judicial (Courts, District Clerk and Juries), legal (prosecutors, investigators and outside counsel), financial administration (County Auditor, Treasurer and Tax Assessor-Collector), public safety (Sheriff and other law enforcement officials), roads and bridges, assistance to indigent residents and County libraries. The financial statements of Kaufman County have been prepared in conformity with U. S. generally accepted accounting principles 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 Statement No. 14, "*The Financial Reporting Entity*," 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.

B. Basis of Presentation

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

GOVERNMENT-WIDE STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

Major governmental funds reported by the County are:

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

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

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

Fiduciary funds reported by the County are:

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

C. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

D. Budgetary Accounting

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

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

E. Encumbrances

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

F. Cash and Investments

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

All investments of the County are made pursuant to the Texas Public Funds Investments Act. Investments at September 30, 2007 are stated at fair market value in accordance with provisions of GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and consist of obligations that are fully insured by the State of Texas.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid expenses on the government-wide financial statements.

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Capital Assets

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

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

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

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

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

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

I. Compensated Absences

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

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

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

J. Long-Term Obligations

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Property Taxes

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

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

The combined tax rate for the year ended September 30, 2007 was \$0.5622 per \$100 and was allocated as follows:

General Fund	\$ 0.4600
Debt Service Fund	0.0342
Road & Bridge Funds	<u>0.0680</u>
Total	<u>\$0.5622</u>

L. Estimates

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

M. Implementation of New Standards

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

GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans ("GASB 45"), establishes standards for measurement, recognition and display of other postemployment benefits (OPEB) expense or expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers.

NOTE 2. CASH AND INVESTMENTS

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

Cash

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

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 2. CASH AND INVESTMENTS - CONTINUED

Investments

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

During the year ended September 30, 2007, all of the County's investments were invested with the State of Texas Local Government Investment Pool (TexPool), which is a public funds investment pool created by the Treasurer of the State of Texas. TexPool acts as custodian of investments purchased with local investment funds. Texpool investments are stated at amortized cost, which in most cases approximates the market value of the shares. The fair value of these investments at September 30, 2007 was \$5,335,000.

NOTE 3. RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Receivables of the County consist of property taxes, fines and fees, and beverage tax. The County receives 10.71% of the beverage tax issued on mixed beverage and private club registrations. Beverage tax revenue is a small portion of the revenues for the county. Property taxes are the largest revenue producer for the County and are described above in the Summary of Significant Accounting Policies. The following is a summary of the receivables for the County's individual funds at September 30, 2007, per the government-wide statements, including the allowance for uncollectible accounts:

	<u>General</u>	<u>General Road & Bridge</u>	<u>Total</u>
Property taxes receivable	\$ 1,876,897	\$ 286,642	\$ 2,163,539
Beverage taxes receivable	18,082	-	18,082
Fines and fees receivable	216,271	-	216,271
Allowance for uncollectibles	(1,347,312)	(210,515)	(1,557,827)
Net accounts receivable	<u>\$ 763,938</u>	<u>\$ 76,127</u>	<u>\$ 840,065</u>

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4. CAPITAL ASSETS

All fixed assets are valued at cost. Capital asset activity for the year ended September 30, 2007 is as follows:

	Balance 9/30/06	Additions	Disposals	Transfers	Adjustments	Balance 9/30/07
Governmental activities:						
Non-depreciable assets:						
Land	\$ 193,625	\$ -	\$ -	\$ -	\$ -	\$ 193,625
Construction in progress	188,233	-	-	(188,233)	-	-
Total non-depreciable assets	381,858	-	-	(188,233)	-	193,625
Depreciable assets:						
Buildings	27,612,344	37,684	-	-	-	27,650,028
Infrastructure	-	-	-	-	12,147,226	12,147,226
Machinery	4,170,234	486,162	(374,299)	-	-	4,282,097
Vehicles	2,672,957	1,401,224	(482,345)	-	-	3,591,836
Furniture, fixtures, & equipment	3,404,497	1,058,465	(5,698)	188,233	-	4,645,497
Total depreciable assets	37,860,032	2,983,535	(862,342)	188,233	12,147,226	52,316,684
Less: accumulated depreciation	12,601,930	2,234,615	(344,670)	-	7,691,285	22,183,160
Total depreciable assets, net	25,258,102	748,920	(517,672)	188,233	4,455,941	30,133,524
Total capital assets	<u>\$25,639,960</u>	<u>\$ 748,920</u>	<u>\$ (517,672)</u>	<u>\$ -</u>	<u>\$ 4,455,941</u>	<u>\$30,327,149</u>

Depreciation expense for the year totaled \$2,234,615 and was charged to functions of the government-wide statement of activities as follows:

Governmental Activities:	
General Government	\$ 1,126,651
Judicial	40,329
Public Safety and Corrections	501,770
Environmental Services	556,029
Community Services	9,836
Total depreciation expense	<u>\$ 2,234,615</u>

GASB 34 requires government entities to retroactively capitalize infrastructure assets acquired or donated since 1980 and to capitalize infrastructure constructed or acquired subsequent to the implementation of the new reporting model, which Kaufman County implemented for the year ending September 30, 2003. However, GASB 34 allows government entities an additional 4 years to capture all of their old infrastructure. Kaufman County has elected to retroactively report their infrastructure for the year ending September 30, 2007.

See Note 12 regarding the restatement of the County's financial statements at September 30, 2006 to reflect the addition of the County's infrastructure.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 5. SHORT-TERM DEBT - TAX ANTICIPATION NOTES

The County issues tax anticipation notes in advance of property tax collections to meet short-term cash requirements. Short-term debt activity for the year ended September 30, 2007 was as follows:

	Tax Anticipation Notes
Balance, October 1, 2006	\$ 510,000
Increases	-
Decreases	(510,000)
Balance, September 30, 2007	\$ -

NOTE 6. 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. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases." These leases, which totaled \$1,316,197, with related debt of \$1,005,121 at September 30, 2007, are recorded in the government-wide financial statements.

The following is a schedule of the future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments at September 30, 2007:

Year Ended September 30,	
2008	\$ 649,938
2009	213,306
2010	76,524
2011	88,621
2012	33,439
Total minimum lease payments	1,061,828
Less: amount representing interest	(56,707)
Present value of net minimum lease payments	\$ 1,005,121

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 7. LONG-TERM DEBT

During the year ended September 30, 2007, the following changes occurred in long-term debt:

	Certificate of Obligation	Compensated Absences	Capital Leases	Notes Payable
Balance, October 1, 2006	\$ 21,280,000	\$ 1,003,658	\$ 1,068,573	\$ 726,822
Increases	-	-	-	-
Decreases	(815,000)	(55,578)	(63,452)	(162,499)
Balance, September 30, 2007	<u>\$ 20,465,000</u>	<u>\$ 948,080</u>	<u>\$ 1,005,121</u>	<u>\$ 564,323</u>
Amounts Due Within One Year	\$ 1,155,000	\$ 284,424	\$ 617,314	\$ 174,683

Certificates of Obligation:

\$22,000,000 Certificates of Obligation, Series 2002, dated June 15, 2002, annual maturities ranging from \$710,000 to \$1,725,000 through February 15, 2012; interest varies from 4.0% to 5.0%	\$18,445,000
\$2,020,000 Texas Tax Note, Series 2006B, dated August 15, 2006, annual maturities ranging from \$300,000 to \$375,000 through February 15, 2012; interest payable semi-annually; interest rate of 4.22%	<u>2,020,000</u>
Total	<u>\$20,465,000</u>

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

The annual requirements to amortize the Certificates of Obligation outstanding at September 30, 2007, including interest payable of \$7,837,788 are as follows:

Year Ended September 30,	Certificate of Obligation
2008	\$ 2,080,377
2009	2,087,400
2010	2,097,091
2011	2,103,117
2012	2,099,884
Thereafter	17,834,919
Total	<u>\$ 28,302,788</u>

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 8. CONTINGENT LIABILITIES

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

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

NOTE 9. INTERFUND ACTIVITY

Interfund transfers for the fiscal year ending September 30, 2007 are summarized below:

<u>Operating Transfer From</u>	<u>Amount</u>	<u>Operating Transfer To</u>	<u>Explanation</u>
General	\$ 145,000	Kaufman Co. Library	Supplement fund sources
General	5,000	Lake Dam Maintenance	Supplement fund sources
General	50,000	Solid Waste Conv. Station	Supplement fund sources
General	400,000	Indigent Health	Supplement fund sources
General	25,000	General Right of Way	Supplement fund sources
General	500	Addiction Recovery	Supplement fund sources
General Road & Bridge	1,477,518	Road & Bridge #1	Supplement fund sources
General Road & Bridge	1,374,588	Road & Bridge #2	Supplement fund sources
General Road & Bridge	1,374,625	Road & Bridge #3	Supplement fund sources
General Road & Bridge	1,825,130	Road & Bridge #4	Supplement fund sources
Total Transfers	<u>\$ 6,677,361</u>		

NOTE 10. PENSION PLAN

Plan Description

Kaufman County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 573 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 10. PENSION PLAN - CONTINUED

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 (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS ACT, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 7.27% for the months of the accounting year in 2007, and 6.75% for the months of the accounting year in 2006.

The deposit rate payable by the employee members for calendar year 2007 is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ending September 30, 2007, the annual pension cost for the TCDRS plan for its employees was \$1,055,700, and the actual contributions were \$1,108,629.

ACTUARIAL VALUATION INFORMATION

Actual valuation date	12/31/2004	12/31/2005	12/31/2006
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Amortization period	20	20	20
Asset valuation method	Long-term appreciation with adjustment	Long-term appreciation with adjustment	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.50%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

(1) Includes inflation at the stated rate

The annual required contributions were actuarially determined as a percentage of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2004 and December 31, 2005, the basis of determining the contribution rates for calendar years 2006 and 2007. The December 31, 2006 actuarial valuation is the most recent valuation.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 10. PENSION PLAN - CONTINUED

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

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2005	\$ 894,543	100%	\$ -
September 30, 2006	\$ 927,196	100%	\$ -
September 30, 2007	\$ 1,055,700	100%	\$ -

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 17,955,369	\$ 19,506,129	\$ 1,550,760	92.05%	\$ 11,770,311	13.18%
12/31/2005	\$ 19,365,639	\$ 20,867,853	\$ 1,502,214	92.80%	\$ 13,736,238	10.94%
12/31/2006	\$ 22,687,824	\$ 23,547,818	\$ 859,994	96.35%	\$ 14,521,315	5.92%

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

NOTE 11. RESTRICTED ASSETS

The restricted cash balance of \$21,341 in the government-wide financial statements is restricted for levee construction and repair.

NOTE 12. PRIOR PERIOD RESTATEMENT

The financial statements as of September 30, 2006 have been restated to reflect the addition of the County's infrastructure. This restatement resulted in an increase in capital assets and an increase in net assets of \$4,435,471 in the Governmental Activities section of the government-wide statement. This resulted in restated net assets of \$11,863,869 in the Governmental Activities section of the government-wide statement. This restatement is due to the implementation of GASB Statement No. 34, which requires governments to capitalize infrastructure assets, which prior to implementation, were expensed in the year acquired.

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 23,953,432	\$ 23,953,432	\$ 23,203,129	\$ (750,303)
Fees, fines and charges for services	5,133,750	5,168,450	6,252,764	1,084,314
Intergovernmental	192,500	172,500	264,008	91,508
Miscellaneous	1,753,406	1,766,406	2,602,076	835,670
Total Revenues	<u>31,033,088</u>	<u>31,060,788</u>	<u>32,321,977</u>	<u>1,261,189</u>
EXPENDITURES				
Current:				
General administration	7,471,401	7,265,525	6,865,484	400,041
Judicial	2,009,923	2,117,293	2,476,461	(359,168)
Legal	1,841,260	1,661,260	1,483,649	177,611
Elections	203,336	276,989	273,861	3,128
Financial administration	875,528	872,767	2,162,649	(1,289,882)
Public facilities	437,267	491,124	490,952	172
Public safety	13,979,217	14,071,038	12,784,539	1,286,499
Environmental protection	297,389	298,340	272,111	26,229
Health and welfare	508,999	1,038,999	727,762	311,237
Conservation	201,392	201,392	207,676	(6,284)
Debt Service:				
Principal	20,800	18,109	180,560	(162,451)
Interest and fiscal charges	-	-	54,497	(54,497)
Capital outlay	1,260,100	1,604,612	935,850	668,762
Total Expenditures	<u>29,106,612</u>	<u>29,917,448</u>	<u>28,916,051</u>	<u>1,001,397</u>
Excess of Revenues Over Expenditures	1,926,476	1,143,340	3,405,926	2,262,586
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(555,976)	(655,976)	(625,500)	30,476
Total Other Financing Uses	<u>(555,976)</u>	<u>(655,976)</u>	<u>(625,500)</u>	<u>30,476</u>
Excess of revenues over other sources and expenditures	<u>\$ 1,370,500</u>	<u>\$ 487,364</u>	2,780,426	<u>\$ 2,293,062</u>
Fund balance at beginning of year			<u>1,310,698</u>	
Fund balance at end of year			<u>\$ 4,091,124</u>	

KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,594,203	\$ 3,594,203	\$ 3,453,184	\$ (141,019)
Fees, fines and charges for services	2,923,000	2,743,000	2,637,521	(105,479)
Miscellaneous	2,400	2,400	13,318	10,918
Total Revenues	<u>6,519,603</u>	<u>6,339,603</u>	<u>6,104,023</u>	<u>(235,580)</u>
EXPENDITURES				
Current:				
Roads and bridges	170,455	170,455	74,429	96,026
Total Expenditures	<u>170,455</u>	<u>170,455</u>	<u>74,429</u>	<u>96,026</u>
Excess of Revenues Over Expenditures	6,349,148	6,169,148	6,029,594	(139,554)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(6,349,148)	(6,349,148)	(6,051,861)	297,287
Total Other Financing Uses	<u>(6,349,148)</u>	<u>(6,349,148)</u>	<u>(6,051,861)</u>	<u>297,287</u>
Deficiency of revenues over other financing sources and expenditures	<u>\$ -</u>	<u>\$ (180,000)</u>	(22,267)	<u>\$ 157,733</u>
Fund balance at beginning of year			<u>95,660</u>	
Fund balance at end of year			<u>\$ 73,393</u>	

KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CONSTRUCTION PROJECTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
Capital Outlay	<u>1,750,000</u>	<u>1,750,000</u>	<u>374,463</u>	<u>1,375,537</u>
Total Expenditures	<u>1,750,000</u>	<u>1,750,000</u>	<u>374,463</u>	<u>1,375,537</u>
Deficiency of Revenues Over Expenditures	(1,750,000)	(1,750,000)	(374,463)	1,375,537
OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deficiency of revenues over other financing sources and expenditures	<u>\$ (1,750,000)</u>	<u>\$ (1,750,000)</u>	(374,463)	<u>\$ 1,375,537</u>
Fund balance at beginning of year			<u>1,737,657</u>	
Fund balance at end of year			<u>\$ 1,363,194</u>	

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SINGLE AUDIT SECTION

**KAUFMAN COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS- THROUGH GRANTORS NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through Governor's Division of Emergency Management:			
2005 Urban Area Security Initiative	97.008	2005-GE-T5-4025	\$ 326,159
2006 Urban Area Security Initiative	97.008	2006-GE-T6-0068	<u>32,121</u>
Total Urban Area Security Initiative			358,280
Passed Through Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance	16.738	205-DJ-BX-0459	<u>9,868</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>368,148</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed Through the Office of Rural Community Affairs			
Community Development Block Grant	14.228	725200	<u>239,000</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>239,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 607,148</u>

KAUFMAN COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2007

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Kaufman County, Texas and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Commissioners' Court of Kaufman County
Kaufman, Texas

We have audited the basic financial statements of Kaufman County, Texas as of and for the year ended September 30, 2007, and have issued our report thereon dated March 18, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the deficiency described in the accompanying schedule of findings and response to be a significant deficiency in internal control over financial reporting. See Finding 07-A.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

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

Harry E. Peters, P.C.

Tyler, Texas
March 18, 2008

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

The Honorable Commissioners' Court of Kaufman County
Kaufman, Texas

Compliance

We have audited the compliance of Kaufman County, Texas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Kaufman County, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kaufman County, Texas' management. Our responsibility is to express an opinion on Kaufman County, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kaufman County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Kaufman County, Texas' compliance with those requirements.

In our opinion, Kaufman County, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Kaufman County, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kaufman County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kaufman County, Texas' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Kaufman County, Texas' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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, 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.

Harry E. Peters, P.C.

Tyler, Texas
March 18, 2008

**KAUFMAN COUNTY, TEXAS
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2007**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.008	Urban Area Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

**KAUFMAN COUNTY, TEXAS
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2007**

Section II – Financial Statement Findings

07-A - Expenditures incorrectly coded to Revenue Accounts

Condition: Expenditures were netted against revenues within account balances instead of being posted to a separate expenditure account.

Criteria: Controls are in place to prevent incorrect expense coding and should be adhered to.

Effect: The effect of this would be an understatement of revenues and expenditures.

Recommendation: Separate expenditure accounts should be established for grant expenditures and expenditure code assignment should be reviewed for reasonableness.

Response: Management has prepared a written corrective action plan to respond to these findings.

Section III – Federal Award Findings and Questioned Costs

No matters requiring reporting under *OMB Circular A-133* were noted.

**KAUFMAN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2007**

There were no prior year audit findings.

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UNAUDITED STATISTICAL DATA

KAUFMAN COUNTY, TEXAS
CURRENT TAX COLLECTION HISTORY

LAST TEN YEARS
(Unaudited)

GENERAL

<u>Tax Roll Year</u>	<u>Budget Year</u>	<u>Gross County Valuation</u>	<u>Net Taxable Valuation</u>
2006	2007	\$ 5,772,539,864	\$ 5,030,828,350
2005	2006	6,188,986,520	4,533,989,636
2004	2005	5,302,335,538	3,994,187,374
2003	2004	4,736,905,067	3,596,644,408
2002	2003	3,967,823,787	2,935,154,377
2001	2002	3,089,203,925	2,613,617,963
2000	2001	2,629,477,261	2,032,117,293
1999	2000	2,414,701,961	1,915,820,485
1998	1999	2,222,040,379	1,760,171,312
1997	1998	2,151,173,758	1,626,655,083
1996	1997	2,021,912,630	1,534,778,969

ROAD AND BRIDGE MAINTENANCE

<u>Tax Roll Year</u>	<u>Budget Year</u>	<u>Gross County Valuation</u>	<u>Net Taxable Valuation</u>
2006	2007	\$ 5,772,539,864	\$ 5,030,828,350
2005	2006	6,188,986,520	4,533,989,636
2004	2005	5,302,335,538	3,994,187,374
2003	2004	4,736,905,067	3,596,644,408
2002	2003	3,967,823,787	2,935,154,377
2001	2002	3,089,203,925	2,613,617,963
2000	2001	2,629,477,261	2,032,117,293
1999	2000	2,414,701,961	1,915,820,485
1998	1999	2,222,040,379	1,760,171,312
1997	1998	2,151,173,758	1,626,655,083
1996	1997	2,021,912,630	1,534,778,969

GENERAL

Tax Rate Per \$100	Total Tax Levy	Collections of Current Taxes	Percentage of Levy Collected Currently
\$ 0.49420	\$ 24,692,111	\$ 23,692,632	95.95%
0.47270	21,432,169	20,538,569	95.83%
0.47270	18,880,524	18,112,086	95.93%
0.51930	18,677,374	17,629,574	94.39%
0.48559	14,252,816	13,753,968	96.50%
0.36524	9,545,978	9,196,595	96.34%
0.35050	7,122,571	6,856,187	96.26%
0.37050	7,098,115	6,780,119	95.52%
0.37100	6,530,236	6,246,170	95.65%
0.36775	5,982,024	5,595,585	93.54%
0.36072	5,536,255	5,256,674	94.95%

ROAD AND BRIDGE MAINTENANCE

Tax Rate Per \$100	Total Tax Levy	Collections of Current Taxes	Percentage of Levy Collected Currently
\$ 0.06800	\$ 3,403,543	\$ 3,271,485	96.12%
0.06500	2,947,093	2,821,359	95.73%
0.07000	2,795,931	2,682,137	95.93%
0.07000	2,517,651	2,376,411	94.39%
0.07000	2,054,608	1,982,697	96.50%
0.10929	2,856,423	2,751,878	96.34%
0.11400	2,316,614	2,229,972	96.26%
0.11400	2,184,035	2,086,191	95.52%
0.10399	1,830,402	1,750,780	95.65%
0.09425	1,533,122	1,434,083	93.54%
0.09095	1,395,881	1,325,389	94.95%

HENRY & PETERS, PC

CERTIFIED PUBLIC ACCOUNTANTS

May 12, 2008

The Audit Committee of Kaufman County
Kaufman, Texas

We have audited the general purpose financial statements of Kaufman County, Texas for the year ended September 30, 2007, and have issued our report thereon dated March 18, 2008. A copy of the audited financial statements and management letter are enclosed. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 6, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of Kaufman County, Texas. Such considerations were for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Kaufman County, Texas' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on overall compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Kaufman County, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2007, except for the retroactive reporting of the County's infrastructure as discussed in Note 4 to the financial statements. We noted no transactions entered into by Kaufman County, Texas during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 45"), establishes standards for measurement, recognition and display of other postemployment benefits (OPEB) expense or expenditures and related liabilities (assets), note disclosures and if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. The County will implement this standard in fiscal year 2009.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

A significant estimate made by management was in the area of short-term liability for compensated absences. Management based its estimates on prior history and an analysis of the expectation for future events. We evaluated the key factors and assumptions used to develop the estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment, whether or not recorded by the County, as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed several audit adjustments, some of which we consider to be material to the financial statements, and we have provided these adjustments to Kaufman County, Texas' finance department. However, these adjustments may include those proposed by us but not recorded by the County that could potentially cause future financial statements to be materially misstated, even though we have concluded that the adjustments are not material to the current financial statements.

Management has requested that, in the normal course of our audit, we propose adjustments in certain areas. These are areas that management is aware of that require adjustment but had not been adjusted at the start of audit fieldwork.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statement or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditor

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Kaufman County, Texas' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

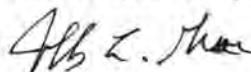
Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Committee, Commissioners' Court and management of Kaufman County, Texas and should not be used for any other purpose.

Very truly yours,

HENRY & PETERS, P.C.



Jeffrey L. Geese
Certified Public Accountant

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

Handwritten initials

Johnny Countryman, County Treasurer
Hal Jones, County Auditor
Kaufman County
Kaufman, Texas

In connection with our audit of the general purpose financial statements of Kaufman County as of and for the year ended September 30, 2007, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Certain control deficiencies that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Cash accounts for the tax assessor/collector's department have not been reconciled on a timely basis. Additionally, the person preparing the reconciliations also has check signing authority. To ensure adequate internal controls, accounts should be reconciled on a timely basis by personnel who do not have check signing authority or the ability to process transactions on the account.

This communication is intended solely for the information and use of management, the Commissioners' Court and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Tyler, Texas
March 18, 2008

Henry & Peters, P.C.

HENRY & PETERS, PC

CERTIFIED PUBLIC ACCOUNTANTS

September 6, 2007

The Honorable County Commissioners' Court
Kaufman County, Texas

We are pleased to confirm our understanding of the services we are to provide for Kaufman County, Texas for the year ended September 30, 2007. We will audit the financial statements of Kaufman County, Texas as of and for the year ended September 30, 2007. Also, the document we submit to you will include the following additional information that will be subjected to the auditing procedures applied in our audit of the financial statements under the single audit provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

- Schedule of Expenditures of Federal Awards

Audit Objective

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the financial statements taken as a whole. The objective also includes reporting on

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for information and use of the Commissioners' Court, County's management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, *Audits of States Local Governments, and Non-Profit Organizations*.

Handwritten:
JHP
10/07
MMD
10/07

Our audit will include tests of the accounting records of Kaufman County, Texas, a determination of major programs(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express an unqualified opinion that the financial statements prepared as part of this engagement are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. If our opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or if we are unable to form an opinion, we may decline to issue a report as a result of this engagement.

Audit Procedures

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriations of assets, or violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include tests of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. We will inform you, however, of any matters of that nature that we become aware of during our engagement. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Kaufman County's compliance with applicable laws and regulations and the provisions of contracts and agreements. However, the objective of our audit will be to provide an opinion on overall compliance and we will not express such an opinion. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, may include tests of the physical existence of inventories, and will include direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters.

An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed for the purpose of expressing our opinion on the financial statements of Kaufman County, Texas and on its compliance with requirements applicable to major programs. Tests of controls may be performed to test the effectiveness of certain controls that we consider, in our professional judgment, relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the

financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than what would be required to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Government Auditing Standards.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operations of controls that in our professional opinion are relevant to preventing or detecting material noncompliance with the requirements applicable to each major federal awards program. Our tests, however, will be less in scope than what would be required to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions, i.e., significant deficiencies in the design or operation of internal control. However, during the audit, if we become aware of reportable conditions under standards established by the American Institute of Certified Public Accountants that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements, or ways that we believe management practices can be improved, we will communicate them to the appropriate level of management in a separate letter. In accordance with Government Auditing Standards and OMB Circular A-133, we will also inform you of any non-reportable conditions or other matters involving internal control.

As stated in this letter under Management Responsibilities, compliance with laws, regulations, contracts, and grant agreements applicable to Kaufman County is the responsibility of management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Kaufman County's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of those procedures will not be to provide an opinion of overall compliance of such provisions and we will not express such an opinion in our report on compliance issued pursuant to Government Auditing Standards.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the client has complied with applicable laws and regulations and the provisions of contracts and agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the "OMB Circular A-133 Compliance Supplement" for the types of compliance requirements that could have a direct and material effect on each of Kaufman County's major programs. The purpose of these procedures will be to express an opinion on Kaufman County's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of applicable laws, regulations, contracts, agreements and grants. In fulfilling this responsibility estimates and judgments by management are required to assess the expected benefits and related costs of

the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with the provisions of applicable laws, regulations, contracts, agreements and grants.

We understand that you will make all financial records and related information available to us for our audit and that you are responsible for the accuracy and completeness of that information. The management of Kaufman County has the responsibility for the proper recording of transactions in the books of account, for establishing and maintaining adequate and effective internal control, for the safeguarding of assets, for ensuring compliance with applicable laws and regulations, and for the preparation and substantial accuracy of the financial statements. Although we may advise you about appropriate accounting principles and their application, the selection and method of application are the sole responsibility of Kaufman County's management. As part of our engagement, we may also propose standard, adjusting, or correcting journal entries to your financial statements. Management, however, has final responsibility for reviewing the proposed entries and understanding the nature and impact of the proposed entries to the financial statements. It is our understanding that management has designated qualified individuals with the necessary expertise to be responsible and accountable for overseeing the services performed as part of this engagement. In addition, management is responsible for adjusting the financial statements for all material adjustments and for confirming to us in the management representation letter that all uncorrected misstatements aggregated by us during the current audit engagement are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is also responsible for identifying and ensuring that the entity complies with applicable laws and regulations applicable to its activities. Also, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. We will ask to review the summary schedule of prior audit findings and the corrective action plan as part of our engagement.

By your signature below, you acknowledge that you are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government that involves management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, grantors or others. You agree that you will confirm to us in your management representation letter your understanding of your responsibilities as defined in this letter.

Other

We understand that your employees will type all cash or other confirmations we request and will locate any invoices selected by us for testing.

The Honorable County Commissioners' Court
Kaufman County, Texas
September 6, 2007
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At the conclusion of our engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

By your signature below, you acknowledge that the audit documentation in connection with this engagement is the property of Henry & Peters, P.C. and constitutes confidential information. However, in accordance with applicable laws and regulations, we may be requested to make certain audit documents available to and/or provide copies of selected audit documentation to oversight agencies for purposes of quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request.

It is our policy to keep records related to this engagement for five years. However, Henry & Peters, P.C. does not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by government or regulatory agencies.

By your signature below, you acknowledge and agree that upon the expiration of the five-year period Henry & Peters, P.C. shall be free to destroy our records related to this engagement.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs such as report reproduction, typing, postage, copies, or telephone calls. We estimate that our fee will not exceed \$52,000. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and may not be resumed until your account is paid in full. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. We expect to begin our audit on or about November 5, 2007. Any incomplete or inaccurate information or any other circumstances causing our work to be delayed will result in additional fees.

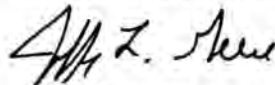
In accordance with *Government Auditing Standards - 1994 Revision*, we have attached to this letter a copy of our most recent external peer review report dated December 22, 2004 and any letter of comment. We will also provide you a copy of any subsequent peer review reports and letters received during the period of the contract.

The Honorable County Commissioners' Court
Kaufman County, Texas
September 6, 2007
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We appreciate the opportunity to be of service to Kaufman County, Texas and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

HENRY & PETERS, P.C.




Jeffrey L. Geese
Certified Public Accountant

JLG/jkb

Attachment

RESPONSE:

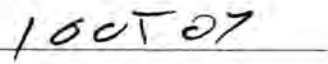
This letter correctly sets forth the understanding of **KAUFMAN COUNTY, TEXAS.**



Signature



Title



Date

Carneiro, Chumney & Co., L.C.

Robert M. McAdams, CPA
Robert L. Lewis, CPA
Franklin W. Burk, CPA
Paul Roth-Roffy, CPA

CERTIFIED PUBLIC ACCOUNTANTS

J. Lowell Goode, CPA
Julia C. Norton, CPA
Sandra J. Geppert, CPA
Allen E. Robertson, Jr., CPA

December 22, 2004

To the Shareholders
Henry & Peters, P.C.

We have reviewed the system of quality control for the accounting and auditing practice of Henry & Peters, P.C. (the firm) in effect for the year ended June 30, 2004. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the AICPA. In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice of Henry & Peters, P.C. in effect for the year ended June 30, 2004, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.



KAUFMAN COUNTY

Kaufman, Texas 75142

March 18, 2008

Henry & Peters, P.C.
3310 S. Broadway, Suite 100
Tyler, Texas 75701

We are providing this letter in connection with your audit of Kaufman County, Texas as of September 30, 2007, and for the year then ended for the purpose of expressing an opinion as to whether the basic financial statements 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm to the best of our knowledge and belief, as of March 18, 2008 the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have identified for you all organizations that are a part of this reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with Kaufman County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. We have identified for you all of our funds, governmental functions, and identifiable business-type activities.
4. We have properly classified all funds and activities.
5. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria
6. We are responsible for compliance with laws and regulations applicable the County including adopting, approving, and amending budgets.
7. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts including legal and contractual provisions for reporting specific activities in separate funds.

8. We have made available to you:
 - a. All financial records and related data of all funds and activities, including those of all special funds, programs, departments, projects, activities, etc., in existence at any time during the period covered by your audit.
 - b. All minutes of the meetings of the governing board and committees of board members or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - c. All communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - (1) Statutory, regulatory or contractual provisions or requirements.
 - (2) Financial reporting practices that could have a material effect on the financial statements.
9. We have no knowledge of fraud or suspected fraud affecting the entity involving:
 - a. Management or employees who have significant roles in the internal control.
 - b. Others where the fraud could have a material effect on the financial statements.
10. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting Kaufman County received in communications from employees, former employees, analysts, regulators, short sellers, or others.
12. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data.
13. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
14. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
15. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Related party transactions, including those with other organizations for which the nature and significance of their relationship with Kaufman County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, and amounts receivable or payable to related parties, all of which have been recorded in accordance with the economic substance of the transaction and appropriately classified and reported.
 - b. Guarantees, whether written or oral, under which the Government is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - d. Line of credit or similar arrangements.
 - e. Agreements to repurchase assets previously sold.

- f. Security agreements in effect under the Uniform Commercial Code.
 - g. Any other liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - h. The fair value of investments.
 - i. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - j. Any liabilities which are subordinated in any way to any other actual or possible liabilities.
 - k. Debt issue repurchase options or agreements, or sinking fund debt repurchase ordinance requirements.
 - l. Debt issue provisions.
 - m. All leases and material amounts of rental obligations under long-term leases.
 - n. All significant estimates and material concentrations known to management which are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
 - o. Authorized but unissued bonds and/or notes.
 - p. Risk financing activities.
 - q. Special and extraordinary items.
 - r. Deposits and investment securities category of custodial credit risk.
 - s. Arbitrage rebate liabilities.
16. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made.
- a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. To reduce investments, intangibles, and other assets which have permanently declined in value to their realizable values.
 - d. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through September 30, 2007, and/or for expected retroactive insurance premium adjustments applicable to periods through September 30, 2007.
 - e. For pension obligations, post-retirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through September 30, 2007.
 - f. For any material loss to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - g. For any material loss to be sustained as a result of purchase commitments.
 - h. For environmental clean up obligations.

17. There are no:
 - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
 - d. Reservations or designations of fund equity that were not properly authorized and approved.
18. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10
19. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
20. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except for those disclosed in the financial statements.
21. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
22. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements have been properly disclosed.
23. We have reviewed and approved the various adjusting journal entries that were prepared by your firm for recording in our books and records, which are included in the attached schedule of posted adjustments and will post all adjustments accordingly. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
24. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
25. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
26. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
28. Required supplementary information is properly measured and presented.

29. In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

a. We are responsible for:

1. Compliance with the laws, regulations, and provisions of contracts and grant agreements related to each of its federal and state programs applicable to Kaufman County.

2. Establishing and maintaining effective internal control over financial reporting.

b. We have disclosed to you:

1. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to audit objectives.

2. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

3. All grant documents and related correspondence.

To the best of our knowledge and belief, no events or transactions have occurred subsequent to the balance sheet date through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Sincerely,

Wayne Gent 4/14/08
Wayne Gent, County Judge Date

Hal D. Jones 4/14/08
Hal Jones, County Auditor Date