

KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

INTRODUCTORY SECTION

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**KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

Commissioners' Court:

County Judge	Mr. Bruce Wood
Commissioner of Precinct #1	Mr. Jerry Rowden
Commissioner of Precinct #2	Mr. Ray Clark
Commissioner of Precinct #3	Mr. J.C. Jackson
Commissioner of Precinct #4	Mr. Tom Manning

Justices of the Peace:

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

Constables:

Precinct #1	Mr. Shelley Featherston
Precinct #2	Mr. Joe Don Law
Precinct #3	Mr. Lowrie Sanders
Precinct #4	Mr. Bryant Morris

86th Judicial District of the State of Texas:

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

KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

Continued

422nd Judicial District of the State of Texas:

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

Officials of Kaufman County:

County Court-at-Law Judge	Mr. 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. Desiree Pool
Public Works Coordinator	Ms. Kathy Morris
Emergency Management Coordinator	Mr. Steve Howie
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, Texas as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kaufman County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2011 on our consideration of Kaufman County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion & Analysis on pages 2 through 7, and the required supplementary information on pages 34 through 38, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Auditing Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kaufman County, Texas' financial statements as a whole. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Henry E. Peters, P.C.

Tyler, Texas
March 15, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of Kaufman County (the County) for the fiscal year ended September 30, 2010. This analysis is designed to focus on current activities, resulting changes and currently known facts. Please consider the information presented here, in conjunction with the financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

The assets of the County exceeded its liabilities at the close of the year by \$10,172,713 (net assets). The balance of unrestricted net assets at year-end was a negative \$693,254.

- Total net assets decreased by \$4,024,809 due primarily to a reduction in property tax revenues of \$615,807 as a result of reduced property values, a reduction in charges for services of \$1,321,889 due to reduced activity resulting from the current economic downturn, and a reduction in various other income categories of \$923,922 also resulting from the lagging economy.
- The County's total liabilities decreased by \$277,055 from the previous year due to repayment of certificates of obligation of \$1,270,000, offset by increases of \$705,414 in the liability for Other Post Employment Benefits and other increases in the ordinary course of business.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$3,112,803, a decrease of \$2,375,092 from the previous year. The total fund balance is available for spending at the County's discretion (unreserved fund balance).
- The County has accrued a potential liability of \$850,000 for certain legal actions and claims arising in the ordinary course of operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Governmental funds. These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Road and Bridge Fund and Construction Projects Fund, all of which are considered major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

The proprietary fund financial statements can be found on pages 14-16 of this report.

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

The fiduciary fund financial statements can be found on page 17 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 18-33.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of Kaufman County, assets exceeded liabilities by \$10,172,713 as of September 30, 2010.

The County's investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 98% of net assets, an increase of 18% 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 decreased \$2,785,163 (net) while current and other assets decreased \$1,516,701. Cash and investment balances decreased \$1,445,369, primarily due to the County's utilization of a portion of the prior year's cash reserve to fund increased costs such as fuel, utilities and other cost increases. Long-term liabilities decreased from the prior year by \$892,908, due primarily to the repayment of certificates of obligation of \$1,270,000, offset by an increase in the liability for other post employment benefits of \$705,414.

Governmental activities. Governmental activities decreased the County's net assets by \$4,024,809. The decrease from prior year is due primarily to the \$705,414 increase in the liability for Other Post Employment Benefits. County revenues decreased by \$2,861,618 due primarily to reduced property values for taxes and to the decrease in fee-producing activities throughout the County during the year due to the lagging economy. Additionally, economic conditions contributed to a reduction in the amount of fines and other costs collected.

Kaufman County's Net Assets

	Governmental Activities 2010	Governmental Activities 2009
Current and other assets	\$ 6,671,731	\$ 8,188,432
Capital assets	30,405,288	33,190,451
Total assets	<u>37,077,019</u>	<u>41,378,883</u>
Long-term liabilities	24,037,177	24,930,085
Other liabilities	2,867,129	2,251,276
Total liabilities	<u>26,904,306</u>	<u>27,181,361</u>
Net assets:		
Invested in capital assets, net of related debt	9,996,622	11,283,420
Restricted	869,345	1,129,868
Unrestricted	(693,254)	1,784,234
Total net assets	<u>\$ 10,172,713</u>	<u>\$ 14,197,522</u>

Kaufman County's Changes in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
REVENUES		
General revenues:		
Property taxes	\$ 33,567,845	\$ 34,183,652
Fees, fines and charges for service	7,130,368	8,452,257
Grants and contributions	1,512,661	1,997,802
Investment income	76,319	128,466
Miscellaneous	1,063,696	1,413,676
Gain on disposal of capital assets	1,537	38,191
Total revenues	43,352,426	46,214,044
	Governmental Activities 2010	Governmental Activities 2009
EXPENSES		
General government	\$ 12,577,439	\$ 12,645,700
Public safety and corrections	19,559,418	19,742,354
Judicial	5,413,190	5,443,339
Infrastructure and environmental services	7,181,073	6,919,798
Health and human services	1,554,138	1,733,656
Interest and fiscal charges	839,371	907,015
Community service	252,606	224,425
Total expenses	47,377,235	47,616,287
DECREASE IN NET ASSETS	(4,024,809)	(1,402,243)
NET ASSETS, BEGINNING PRIOR PERIOD	14,197,522	16,129,693
ADJUSTMENT	-	(529,928)
NET ASSETS, ENDING	\$ 10,172,713	\$ 14,197,522

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, unrestricted total fund balance of the General Fund was \$(1,669,923). 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 (5.09)% of total General Fund expenditures.

The fund balance of the General Fund decreased by \$1,640,004 during the fiscal year. Key factors of the decrease are due to the reduction of general revenues for the year and the increase in the liability for Other Post Employment Benefits. General fund revenues decreased by \$1,671,237, while expenditures decreased by \$1,532,615.

The General Road and Bridge Fund had an ending fund balance of \$133,623. The reporting requirements under GASB 34 require that the General Road and Bridge Fund be reported separately from the other four road and bridge funds if it qualifies as a Major Fund. The General Road and Bridge Fund is typically not expected to carry a large fund balance, since it functions mainly as a pass-through fund to intake Road and Bridge taxes and other revenues and pass them on to the individual Road and Bridge precinct funds. Refer to Note 8 on page 28 for more details of transfers between funds.

General Fund Budgetary Highlights

Differences between the actual and the final amended budget were significant (\$1,255,207 less than budgeted). This is briefly summarized as follows:

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Kaufman County’s investment in capital assets for its governmental activities as of fiscal year end was \$30,405,288 (net of accumulated depreciation), an decrease of \$2,785,163 from the prior year. The decrease primarily results from depreciation recorded during the year, offset somewhat by various purchases and disposals of assets in the ordinary course of operations. The investment in capital assets includes land, buildings, improvements, infrastructure, machinery and equipment, roads, bridges and office furniture and equipment.

Kaufman County’s Capital Assets

	Capital Assets 2010	Capital Assets 2009
Land	\$ 805,108	\$ 805,108
Non-depreciable infrastructure	445,210	421,225
Public monuments	712,736	-
Buildings, improvements, FF& E	32,714,401	33,163,611
Infrastructure	12,147,226	12,147,226
Machinery and equipment	12,359,072	12,478,449
	<u>59,183,753</u>	<u>59,015,619</u>
Less: accumulated depreciation	(28,778,465)	(25,825,168)
Total capital assets, net	<u>\$ 30,405,288</u>	<u>\$ 33,190,451</u>

The County had the following additions to fixed assets:

Land	\$ -	\$ 120,335
Non-depreciable infrastructure	23,985	-
Public monuments	712,736	-
Buildings	-	-
Infrastructure	-	-
Purchase of new vehicles	1,248,780	1,493,917
Purchase of road and bridge equipment	457,320	2,876,288
Furniture and fixtures	660,639	534,322

Long-term debt. At the end of the fiscal year, the County had total debt outstanding of \$24,037,177, which is a decrease of \$892,908 from the prior year.

Kaufman County's Outstanding Debt

	<u>2010</u>	<u>2009</u>
Certificates of obligation	\$16,830,000	\$ 18,100,000
Notes payable	-	274,260
Compensated absences	1,336,143	1,486,100
Capital leases	3,578,666	3,532,771
OPEB	1,442,368	736,954
Legal accrual	850,000	800,000
Total Outstanding Debt	<u>\$24,037,177</u>	<u>\$ 24,930,085</u>

State statutes limit the amount of general obligation debt that a county may issue to 10% of its total assessed valuation. The current debt limit for Kaufman County is \$686,612,040, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 6 on page 27.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- In December 2007, the County entered into an interlocal agreement with the City of Terrell, Texas, to participate in a newly created Tax Increment Financing Reinvestment Zone ("TIF"). In order to encourage accelerated development and redevelopment of the TIF properties, the County agreed to dedicate 50% of the general fund tax revenues attributable to the future increases in taxable value of such properties for a period not to exceed 30 years. The TIF funds will be used to provide funds for public infrastructure. The TIF agreement had an immaterial effect on the 2010 financial statements, and the effect for 2011 will not be material. However, over the life of the TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.
- During the 2010 year, the County entered into a separate agreement with the City of Forney to participate in its TIF as well, utilizing the same funding structure as the Terrell TIF noted above. There was no effect on the 2010 financial statements, and the effect for 2011 will not be material. However, as with the Terrell TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.
- Estimated revenue for fiscal year 2011 is \$33,174,807 for the General Fund and estimated expenditures are \$33,171,442. The total tax rate remained the same, at \$.5565 per \$100.

REQUESTS FOR INFORMATION

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

KAUFMAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	Primary Government
	Governmental
	Activities
ASSETS	
Cash and cash equivalents	\$ 4,332,520
Investments	1,425,050
Taxes receivable, net of allowance for uncollectibles	914,161
Capital assets, net:	
Not subject to depreciation	1,963,054
Subject to depreciation	28,442,234
Total Assets	\$ 37,077,019
 LIABILITIES	
Accounts payable	\$ 1,756,665
Accrued liabilities	1,110,464
Long-term liabilities:	
Portion payable within one year:	
Compensated absences payable	400,843
Capital leases	1,917,825
Certificates of obligation payable	1,330,000
Portion payable after one year:	
Compensated absences payable	935,300
Capital leases	1,660,841
Other post employment benefits payable	1,442,368
Legal liability accrual	850,000
Certificates of obligation payable	15,500,000
Total Liabilities	\$ 26,904,306
 NET ASSETS	
Invested in capital assets, net of related debt	\$ 9,996,622
Restricted	869,345
Unrestricted	(693,254)
Total Net Assets	\$ 10,172,713

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Expense and</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Changes in Net Assets</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Primary Government</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Governmental</u>
					<u>Activities</u>
Primary Government:					
Governmental activities:					
General government	\$ 12,577,439	\$ 1,852,442	\$ 60,651	\$ -	\$ (10,664,346)
Public safety and corrections	19,559,418	1,517,736	977,836	-	(17,063,846)
Judicial	5,413,190	1,384,402	11,304	31,240	(3,986,244)
Community services	252,606	69,854	25,822	-	(156,930)
Infrastructure and environmental	7,181,073	2,305,934	-	-	(4,875,139)
Health and human services	1,554,138	-	405,808	-	(1,148,330)
Interest and fiscal charges	839,371	-	-	-	(839,371)
Total governmental activities	<u>47,377,235</u>	<u>7,130,368</u>	<u>1,481,421</u>	<u>31,240</u>	<u>(38,734,206)</u>
Total Primary Government	<u>\$ 47,377,235</u>	<u>\$ 7,130,368</u>	<u>\$ 1,481,421</u>	<u>\$ 31,240</u>	<u>\$ (38,734,206)</u>
			General Revenues:		
			Property taxes	\$ 33,567,845	
			Investment income	76,319	
			Gain on disposal of capital assets	1,537	
			Miscellaneous	1,063,696	
			Total general revenues	<u>34,709,397</u>	
			Change in net assets	<u>(4,024,809)</u>	
			Net assets, beginning of year	14,197,522	
			Net assets, end of year	<u>\$ 10,172,713</u>	

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	General Funds	General Road & Bridge	Construction Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 416,842	\$ 96,817	\$ 8,973	\$ 3,634,737	\$ 4,157,369
Investments	20,000	-	925,000	480,050	1,425,050
Receivables:					
Taxes	2,556,066	385,011	-	-	2,941,077
Due from other funds	131,494	-	-	18,506	150,000
Total Assets	<u>\$ 3,124,402</u>	<u>\$ 481,828</u>	<u>\$ 933,973</u>	<u>\$ 4,133,293</u>	<u>\$ 8,673,496</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Bank overdrafts	\$ 1,207,357	\$ -	\$ -	\$ 8,761	\$ 1,216,118
Accounts payable	305,139	-	-	235,408	540,547
Accrued liabilities	851,196	-	-	173,994	1,025,190
Due to other funds	150,000	-	-	-	150,000
Deferred revenues	2,280,633	348,205	-	-	2,628,838
Total Liabilities	<u>4,794,325</u>	<u>348,205</u>	<u>-</u>	<u>418,163</u>	<u>5,560,693</u>
Fund Balances:					
Reserved for:					
Capital projects	-	-	933,973	1,901	935,874
Debt service	-	-	-	18,609	18,609
Total reserved	<u>-</u>	<u>-</u>	<u>933,973</u>	<u>20,510</u>	<u>954,483</u>
Unreserved:					
Undesignated reported in:					
General funds	(1,669,923)	-	-	-	(1,669,923)
Special revenue funds	-	133,623	-	3,694,620	3,828,243
Total Fund Balances	<u>(1,669,923)</u>	<u>133,623</u>	<u>933,973</u>	<u>3,715,130</u>	<u>3,112,803</u>
Total Liabilities and Fund Balances	<u>\$ 3,124,402</u>	<u>\$ 481,828</u>	<u>\$ 933,973</u>	<u>\$ 4,133,293</u>	<u>\$ 8,673,496</u>

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

SEPTEMBER 30, 2010

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

Total Fund Balance - Governmental Funds (page 10)	\$ 3,112,803
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	\$ 59,183,753
Less: Accumulated depreciation	<u>(28,778,465)</u> 30,405,288
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.	601,922
Net other post employment benefits obligation in governmental activities does not require current financial resources and therefore are not reported in the governmental funds balance sheet.	(1,442,368)
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.	(21,744,809)
Internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	175,015
Potential legal liability stemming from judgment that is not payable from current resources and therefore are not reported in the governmental funds.	(850,000)
Interest payable used in the county's governmental activities are not payable from current resources and therefore are not reported in the governmental funds.	<u>(85,138)</u>
Net Assets of Governmental Activities (page 8)	<u><u>\$10,172,713</u></u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

	General	General Road & Bridge	Construction Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes					
Property taxes	\$ 27,267,748	\$ 4,083,359	\$ -	\$ 2,016,273	\$ 33,367,380
License and other fines	-	-	-	28,230	28,230
Fees, fines and charges for services	3,506,672	2,195,753	-	1,399,713	7,102,138
Intergovernmental	147,331	-	-	1,365,330	1,512,661
Investment income	41,420	4,494	-	30,405	76,319
Miscellaneous	704,280	-	-	359,416	1,063,696
Gain (loss) on sale of assets	-	-	-	1,537	1,537
Total Revenues	<u>31,667,451</u>	<u>6,283,606</u>	<u>-</u>	<u>5,200,904</u>	<u>43,151,961</u>
EXPENDITURES					
Current:					
General government	9,284,039	-	30	190,166	9,474,235
Public safety and corrections	15,419,662	-	-	2,656,032	18,075,694
Judicial	4,952,866	-	-	146,092	5,098,958
Community service	196,248	-	-	16,695	212,943
Infrastructure and environmental	906,920	49,393	-	6,115,137	7,071,450
Health and human service	969,079	-	-	579,401	1,548,480
Capital outlay	1,075,703	-	197,519	2,196,295	3,469,517
Debt service:					
Principal	-	-	-	1,270,000	1,270,000
Interest and fiscal charges	18,465	-	-	827,400	845,865
Total Expenditures	<u>32,822,982</u>	<u>49,393</u>	<u>197,549</u>	<u>13,997,218</u>	<u>47,067,142</u>
Excess (deficiency) of revenues over expenditures	<u>(1,155,531)</u>	<u>6,234,213</u>	<u>(197,549)</u>	<u>(8,796,314)</u>	<u>(3,915,181)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	57,197	-	478	6,753,670	6,811,345
Operating transfers out	(541,670)	(6,269,197)	-	(478)	(6,811,345)
Capital lease proceeds	-	-	-	1,540,089	1,540,089
Total other financing sources (uses)	<u>(484,473)</u>	<u>(6,269,197)</u>	<u>478</u>	<u>8,293,281</u>	<u>1,540,089</u>
Net change in fund balance	(1,640,004)	(34,984)	(197,071)	(503,033)	(2,375,092)
Fund balance at beginning of year	(29,919)	168,607	1,131,044	4,218,163	5,487,895
Fund balance at end of year	<u>\$ (1,669,923)</u>	<u>\$ 133,623</u>	<u>\$ 933,973</u>	<u>\$ 3,715,130</u>	<u>\$ 3,112,803</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, 2010

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

Net change in fund balance - total governmental funds (page 12)		\$(2,375,092)
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	\$ (265,119)	
Less: Current year depreciation	<u>(3,386,550)</u>	(3,651,669)
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.		149,957
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		200,465
Bad debt expense reported in the statement of activities as a result of the full accrual method of accounting is not reported as an expenditure in governmental funds.		(274,067)
Governmental funds report all payments to other post employment benefits as expenditures. However, in the government-wide statement of activities the actuarial annually required contribution is considered an expense. Any deficit amount is considered a liability. Change in net other post employment benefits obligation.		(705,414)
The issuance of long-term debt (e.g., certificates of obligation, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt is an expenditure in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.		2,364,871
Internal service fund is used by management to charge the costs of health insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities.		309,646
Potential legal expense stemming from judgment that is reported in the statement of activities and does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.		(50,000)
Interest expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.		<u>6,494</u>
Change in net assets of governmental activities (page 9)		<u><u>\$ (4,024,809)</u></u>

See accompanying notes to financial statements.

**KAUFMAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010**

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS	
Current Assets:	
Cash	\$ 175,151
Total Current Assets	<u>175,151</u>
 LIABILITIES	
Current Liabilities:	
Accrued liabilities	<u>136</u>
Total Current Liabilities	<u>136</u>
 NET ASSETS	
Unrestricted	<u>175,015</u>
Total Net Assets	<u><u>\$ 175,015</u></u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	Governmental Activities - Internal Service Funds
OPERATING REVENUES	
Premiums and reimbursements	\$ 3,800,107
Total Operating Revenues	3,800,107
OPERATING EXPENSES	
Insurance claims and administrative fees	3,490,461
Total Operating Expenses	3,490,461
Change in net assets	309,646
Net Assets - September 30, 2009	(134,631)
Net Assets - September 30, 2010	\$ 175,015

**KAUFMAN COUNTY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2010**

	Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for premiums	\$ 3,800,243
Cash paid to customers	<u>(3,490,461)</u>
Net cash provided by operating activities	<u>309,782</u>
Net increase in cash	309,782
Cash at beginning of year	<u>(134,631)</u>
CASH AT END OF YEAR	<u>\$ 175,151</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 309,646
Adjustment to reconcile operating income to net cash provided by operating activities:	
Increase in accrued liabilities	<u>136</u>
Net Cash Provided by Operating Activities	<u>\$ 309,782</u>

KAUFMAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2010

	<u>Total</u>
ASSETS	
Cash	\$ 4,487,299
Investments	2,167,994
Total Assets	<u>\$ 6,655,293</u>
LIABILITIES	
Vouchers payable	\$ 283,949
Due to other governments	2,874,902
Other liabilities	3,496,442
Total Liabilities	<u>\$ 6,655,293</u>

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Major governmental funds reported by the County are:

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

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

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

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

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

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation - Continued

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

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

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

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

C. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

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

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2010 are stated at fair market value in accordance with provisions of GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and consist of obligations that are fully insured by the State of Texas.

G. Prepaid Items

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

H. Capital Assets

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

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

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

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

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Capital Assets - Continued

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

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

I. Compensated Absences

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

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

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

J. Long-Term Obligations

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

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, 2010 was \$0.5565 per \$100 and was allocated as follows:

General fund	\$ 0.4545
Debt service fund	0.0340
Road & bridge funds	<u>0.0680</u>
Total	<u>\$ 0.5565</u>

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

L. Fund Equity

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

M. Estimates

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

N. New Accounting Pronouncements

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes accounting and financial reporting requirements to improve the usefulness of information about fund balance by providing clearer, more structured fund balance classifications and clarifying the definitions of existing governmental fund types. This statement is effective for financial statements for years beginning after June 15, 2010. The County is evaluating the impact of this statement on the County's financial statements.

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The provisions related to the use and reporting of the alternative measurement method are effective immediately. The provision related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB financial statements for period beginning after June 15, 2011. The County is evaluating the impact of this statement on the County's financial statements.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. This statement is effective for periods beginning after June 15, 2010. The County is evaluating the impact of this statement on the County's financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011. The County is evaluating the impact of this statement on the County's financial statements.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 2. CASH AND INVESTMENTS

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

Cash

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

Investments

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

Investments are categorized into these three categories of credit risk:

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

During the year ended September 30, 2010, 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, 2010 was \$1,425,050.

	<u>Fair Value</u>	<u>Weighted Average Maturity (days)</u>	<u>Credit Risk</u>
TexPool	\$ 1,425,050	30	AAAm
Cash in bank	3,923,906	N/A	N/A
Portfolio weighted average maturity	<u>\$ 5,348,956</u>	30	

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 2. CASH AND INVESTMENTS - CONTINUED

Investments - Continued

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

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

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

Custodial credit risk – Custodial credit risk is the risk for deposits that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. At September 30, 2010, the carrying value of the County’s bank deposits is \$4,332,520 and the bank balance is \$3,923,906.

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

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, 2010, per the government-wide statements, including the allowance for uncollectible accounts:

	General	General Road & Bridge	Total
Property taxes receivable	\$ 2,534,414	\$ 385,011	\$ 2,919,425
Beverage taxes receivable	21,652	-	21,652
Allowance for uncollectibles	(1,753,325)	(273,591)	(2,026,916)
Net accounts receivable	<u>\$ 802,741</u>	<u>\$ 111,420</u>	<u>\$ 914,161</u>

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 4. CAPITAL ASSETS

All capital assets are valued at cost or, if donated, at fair market value at the date of receipt. In accordance with GASB Statement No. 34, depreciation policies were adopted to include useful lives and classification by function. Infrastructure assets are recorded at estimated acquisition costs by using indexes to discount estimated current replacement costs.

Capital asset activity for the year ended September 30, 2010 is as follows:

	Balance 9/30/09	Additions	Disposals	Balance 9/30/10
Governmental activities:				
Non-depreciable assets:				
Land	\$ 805,108	\$ -	\$ -	\$ 805,108
Infrastructure	421,225	23,985	-	445,210
Public monuments	-	712,736	-	712,736
Total non-depreciable assets	1,226,333	736,721	-	1,963,054
Depreciable assets:				
Buildings	27,433,562	-	(1,078,582)	26,354,980
Infrastructure	12,147,226	-	-	12,147,226
Machinery	7,775,930	457,320	(879,380)	7,353,870
Vehicles	4,702,519	1,248,780	(946,097)	5,005,202
Furniture, fixtures & equipment	5,730,049	660,639	(31,267)	6,359,421
Total depreciable assets	57,789,286	2,366,739	(2,935,326)	57,220,699
Less: accumulated depreciation	25,825,168	3,386,550	(433,253)	28,778,465
Total depreciable assets, net	31,964,118	(1,019,811)	(2,502,073)	28,442,234
Total capital assets	\$33,190,451	\$ (283,090)	\$ (2,502,073)	\$30,405,288

Depreciation expense for the year totaled \$3,386,550 and was charged to functions of the government-wide statement of activities as follows:

Governmental Activities:	
General government	\$ 598,956
Judicial	35,815
Public safety and corrections	1,226,799
Infrastructure and environmental	1,514,656
Community services	10,325
Total depreciation expense	\$ 3,386,550

NOTE 5. LEASE OBLIGATIONS

The County is a party in several lease agreements for equipment and vehicles. The terms of the agreements provide an option to purchase the equipment during or at the end of the lease term. During the year ended September 30, 2010, the County entered into nine new lease agreements classified as capital leases in addition to the twenty other leases capitalized in prior years. The County obtained eight dump trucks, three pieces of road repair equipment, and software and equipment for the Sheriff's department in the current year. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 5. LEASE OBLIGATIONS - CONTINUED

The assets acquired through capital leases are as follows:

	Governmental <u>Activities</u>
Asset:	
Machinery and equipment	\$ 3,578,666
Less: Accumulated depreciation	<u>(1,560,915)</u>
Total	<u>\$ 2,017,751</u>

Depreciation expense related to these leases for the year ended September 30, 2010 was \$740,382.

These leases, which totaled \$6,277,495, with related debt of \$3,578,666 at September 30, 2010, 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, 2010:

<u>Year Ended September 30,</u>	
2011	\$ 2,065,858
2012	707,992
2013	829,205
2014	122,399
2015	100,534
2016 - 2020	<u>22,406</u>
Total minimum lease payments	3,848,394
Less: amount representing interest	<u>(269,728)</u>
Present value of net minimum lease payments	<u>\$ 3,578,666</u>

NOTE 6. LONG-TERM DEBT

During the year ended September 30, 2010, the following changes occurred in long-term debt:

	Beginning Balance 10/1/09	Additions	Reductions	Ending Balance 9/30/10	Due Within One Year	Due in More Than One Year
Governmental Activities:						
Certificate of obligation	\$ 18,100,000	\$ -	\$ (1,270,000)	\$ 16,830,000	\$ 1,330,000	\$ 15,500,000
Compensated absences	1,486,100	-	(149,957)	1,336,143	400,843	935,300
OPEB obligation	736,954	705,414	-	1,442,368	-	1,442,368
Capital leases	3,532,771	1,540,089	(1,494,194)	3,578,666	1,917,825	1,660,841
Notes payable	274,260	-	(274,260)	-	-	-
Legal accrual	800,000	50,000	-	850,000	-	850,000
Governmental Activities Long-Term Liabilities	<u>\$ 24,930,085</u>	<u>\$ 2,295,503</u>	<u>\$ (3,188,411)</u>	<u>\$ 24,037,177</u>	<u>\$ 3,648,668</u>	<u>\$ 20,388,509</u>

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 6. LONG-TERM DEBT - CONTINUED

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%	\$15,755,000
\$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>1,075,000</u>
Total	<u>\$16,830,000</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, 2010, are as follows:

Year Ended September 30,	Principle	Interest
2011	\$ 1,330,000	\$ 773,117
2012	1,385,000	714,884
2013	1,455,000	654,675
2014	1,135,000	600,369
2015	1,190,000	546,500
2016 - 2020	6,975,000	1,748,125
2021 - 2022	3,360,000	170,250
Total	<u>\$ 16,830,000</u>	<u>\$ 5,207,920</u>

NOTE 7. CONTINGENT LIABILITIES

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

The County is involved in certain legal actions and claims arising in the ordinary course of its operations. As of September 30, 2010, the County has accrued an estimated liability of \$850,000 for a final judgment in a collection suit against the County. An appeal on behalf of the County is currently pending. A provision for this suit has been recorded in the County's government-wide financial statements and is expected to be liquidated with future, rather than existing, resources.

NOTE 8. INTERFUND ACTIVITY

Interfund transfers for the fiscal year ending September 30, 2010 are summarized below:

Operating Transfer From	Amount	Operating Transfer To	Explanation
General fund	\$ 541,670	Nonmajor governmental funds	Supplement fund sources
General road & bridge	6,212,000	Nonmajor governmental funds	Supplement fund sources
General road & bridge	57,197	General fund	Supplement fund sources
Nonmajor governmental funds	478	Construction projects	Supplement fund sources
Total Transfers	<u>\$ 6,811,345</u>		

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 9. PENSION PLAN

Plan Description

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

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

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

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 8.19% for the months of the accounting year in 2010, and 7.51% for the months of the accounting year in 2009.

The deposit rate payable by the employee members for calendar year 2010 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.

Funding Status and Progress

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Funded Ratio (a / b)	Unfunded AAL (UAAL) (c) = (b - a)	Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (e) = (c / d)
12/31/09	\$ 32,013,828	\$ 36,768,374	87.07%	\$ 4,754,546	\$ 21,271,267	22.35%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 9. PENSION PLAN - CONTINUED

Annual Pension Cost

For the employer's accounting year ending September 30, 2010, the annual pension cost for the TCDRS plan for its employees was \$1,742,117, and the actual contributions were \$1,742,117.

Actuarial Valuation Information

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Actual valuation date	12/31/2007	12/31/2008	12/31/2009
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	15	20	20
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value	SAF: 10-yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment return (1)	8.00%	8.00%	8.00%
Projected salary increases (1)	5.30%	5.30%	5.40%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	0.00%	0.00%	0.00%

(1) Includes inflation at the stated rate

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/08	\$ 1,219,474	\$ 1,219,474	100%	\$ -
9/30/09	\$ 1,455,701	\$ 1,455,701	100%	\$ -
9/30/10	\$ 1,742,117	\$ 1,742,117	100%	\$ -

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 10. OTHER POST EMPLOYMENT BENEFITS

Program Description

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

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

Funding Policy

The County contributions to the Retiree Health Program consist of a pay-as-you-go monthly contribution rate of one-half (1/2) of the cost of health insurance per participant for those that retire with 10 to 19 years of service and 100% of the cost per participant for those that retire with 20 or more years of service. The County contributions to the plan for fiscal year 2010 were \$176,056. Current retirees with less than 20 years of service contribute to the Retiree Health Program with adjustments for age and gender. Monthly retiree contribution rate for fiscal year 2010 ranges from \$254.21 to \$508.42 for health insurance depending on gender and age. Retirees and current employees with 10 to 19 years of service are financially responsible for one-half of the monthly premiums.

Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed thirty years. The County had its first OPEB actuarial valuation performed for the fiscal year beginning October 1, 2008 as required by GASB. The following table shows the components of the County's annual OPEB cost for the year ending September 30, 2010, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

Annual required contribution (ARC)	\$ 879,032
Interest on net OPEB obligation	33,163
Adjustment to annual required contribution	<u>(30,725)</u>
Annual OPEB cost (expense)	881,470
Contributions made	<u>(176,056)</u>
Change in OPEB obligation	705,414
Net OPEB obligation (asset) - beginning of year	<u>736,954</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ 1,442,368</u></u>

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 10. OTHER POST EMPLOYMENT BENEFITS - CONTINUED

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Costs</u>	<u>Employer Amount Contributed</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 881,470	\$ 176,056	20.0%	\$ 1,442,368

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

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

NOTE 11. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County maintains commercial insurance coverage for each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims did not exceed this commercial insurance coverage during the current fiscal year.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010**

NOTE 12. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Accounting principles generally accepted in the United States of America require disclosure, as part of the Combined Statements - Overview, of certain information concerning individual funds including:

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

<u>Individual Fund</u>	<u>Deficit</u>
General funds:	
General fund – main	\$1,918,703
Solid waste convenience station	9,274
Special revenue funds:	
Emergency shelter	26,893

NOTE 13. SUBSEQUENT EVENTS

On November 1, 2010, the County entered into a short-term note payable agreement with American National Bank of Texas in the amount of \$1,400,000 with an interest rate at prime plus 1.00% and maturity date of March 11, 2011.

**KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2007	\$ 26,035,420	\$ 27,970,301	\$ 1,934,881	93.08%	\$ 17,031,756	11.36%
12/31/2008	27,730,502	32,166,197	4,435,695	86.21%	20,331,014	21.82%
12/31/2009	32,013,828	36,768,374	4,754,546	87.07%	21,271,267	22.35%

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

**KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
FOR THE EMPLOYEES OF KAUFMAN COUNTY, TEXAS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Fiscal Year	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	12/31/2008	\$ -	\$ 6,000,769	\$ 6,000,769	0.00%	\$ 20,331,014	29.52%
2010	12/31/2008	-	6,000,769	6,000,769	0.00%	20,331,014	29.52%

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 27,827,600	\$ 27,827,600	\$ 27,267,748	\$ (559,852)
Fees, fines and charges for services	5,944,250	5,958,481	3,506,672	(2,451,809)
Intergovernmental	99,196	147,353	147,331	(22)
Investment income	80,800	80,800	41,420	(39,380)
Miscellaneous	835,500	835,500	704,280	(131,220)
Total Revenues	<u>34,787,346</u>	<u>34,849,734</u>	<u>31,667,451</u>	<u>(3,182,283)</u>
EXPENDITURES				
Current:				
General government	9,840,908	9,754,435	9,284,039	470,396
Public safety	16,082,933	16,513,631	15,419,662	1,093,969
Judicial	5,372,646	5,405,910	4,952,866	453,044
Community services	203,488	202,168	196,248	5,920
Infrastructure and environmental services	882,388	925,696	906,920	18,776
Health and human services	1,068,883	1,082,961	969,079	113,882
Debt Service:				
Interest and fiscal charges	-	-	18,465	(18,465)
Capital outlay	823,627	865,257	1,075,703	(210,446)
Total Expenditures	<u>34,274,873</u>	<u>34,750,058</u>	<u>32,822,982</u>	<u>1,927,076</u>
Excess (Deficiency) of Revenues Over Expenditures	512,473	99,676	(1,155,531)	(1,255,207)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	638,843	638,843	638,843	-
Operating transfers out	(1,123,316)	(1,123,316)	(1,123,316)	-
Total Other Financing Uses	<u>(484,473)</u>	<u>(484,473)</u>	<u>(484,473)</u>	<u>-</u>
Excess (Deficiency) of revenues over other sources and expenditures	<u>\$ 28,000</u>	<u>\$ (384,797)</u>	<u>(1,640,004)</u>	<u>\$ (1,255,207)</u>
Fund balance at beginning of year			(29,919)	
Fund balance at end of year			<u>\$ (1,669,923)</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,098,300	\$ 4,098,300	\$ 4,083,359	\$ (14,941)
Fees, fines and charges for services	2,969,500	2,969,500	2,195,753	(773,747)
Investment income	4,000	4,000	4,494	494
Miscellaneous	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total Revenues	<u>7,072,800</u>	<u>7,072,800</u>	<u>6,283,606</u>	<u>(789,194)</u>
EXPENDITURES				
Current:				
Roads and bridges	<u>117,998</u>	<u>117,998</u>	<u>49,393</u>	<u>68,605</u>
Total Expenditures	<u>117,998</u>	<u>117,998</u>	<u>49,393</u>	<u>68,605</u>
Excess of Revenues Over Expenditures	6,954,802	6,954,802	6,234,213	(720,589)
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>(6,954,802)</u>	<u>(6,954,802)</u>	<u>(6,269,197)</u>	<u>685,605</u>
Total Other Financing Uses	<u>(6,954,802)</u>	<u>(6,954,802)</u>	<u>(6,269,197)</u>	<u>685,605</u>
Deficiency of revenues over other financing sources and expenditures	<u>\$ -</u>	<u>\$ -</u>	(34,984)	<u>\$ (34,984)</u>
Fund balance at beginning of year			<u>168,607</u>	
Fund balance at end of year			<u>\$ 133,623</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUES	\$ -	\$ -	\$ -	\$ -
EXPENDITURES				
General government	10,000	10,000	30	9,970
Capital outlay	<u>1,135,000</u>	<u>1,135,000</u>	<u>197,519</u>	<u>937,481</u>
Total Expenditures	<u>1,145,000</u>	<u>1,145,000</u>	<u>197,549</u>	<u>947,451</u>
Deficiency of Revenues Over Expenditures	(1,145,000)	(1,145,000)	(197,549)	947,451
OTHER FINANCING SOURCES (USES)	<u>1,145,000</u>	<u>1,145,000</u>	<u>478</u>	<u>(1,144,522)</u>
Excess (Deficiency) of revenues over other financing sources and expenditures	<u>\$ -</u>	<u>\$ -</u>	(197,071)	<u>\$ (197,071)</u>
Fund balance at beginning of year			<u>1,131,044</u>	
Fund balance at end of year			<u>\$ 933,973</u>	

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HENRY & PETERS, PC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Commissioners' Court of Kaufman County
Kaufman, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas as of and for the year ended September 30, 2010, which collectively comprise Kaufman County, Texas' basic financial statements and have issued our report thereon dated March 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kaufman County, Texas' 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, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kaufman County, Texas' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency. Our audit procedures revealed that monthly bank reconciliations for Kaufman County Tax Assessor-Collector Office's bank accounts, including the office's main bank account and Escrow Tax Resale bank account, have not been performed or reviewed as of September 30, 2010. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

Henry E. Peters, P.C.

Tyler, Texas
March 15, 2011

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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>	<u>Tax Rate Per \$100</u>	<u>Total Tax Levy</u>	<u>Collections of Current Taxes</u>	<u>Percentage of Levy Collected Currently</u>
2009	2010	\$ 8,808,022,334	\$ 6,001,311,064	\$ 0.48850	\$ 29,057,725	\$ 27,982,313	96.30%
2008	2009	7,044,415,407	6,100,325,422	0.47850	28,973,921	27,739,520	95.74%
2007	2008	6,420,108,253	5,649,952,348	0.49350	27,671,799	26,677,443	96.41%
2006	2007	5,772,539,864	5,030,828,350	0.49420	24,692,111	23,692,632	95.95%
2005	2006	6,188,986,520	4,533,989,636	0.47270	21,432,169	20,538,569	95.83%
2004	2005	5,302,335,538	3,994,187,374	0.47270	18,880,524	18,112,086	95.93%
2003	2004	4,736,905,067	3,596,644,408	0.51930	18,677,374	17,629,574	94.39%
2002	2003	3,967,823,787	2,935,154,377	0.48559	14,252,816	13,753,968	96.50%
2001	2002	3,089,203,925	2,613,617,963	0.36524	9,545,978	9,196,595	96.34%
2000	2001	2,629,477,261	2,032,117,293	0.35050	7,122,571	6,856,187	96.26%

ROAD AND BRIDGE MAINTENANCE

<u>Tax Roll Year</u>	<u>Budget Year</u>	<u>Gross County Valuation</u>	<u>Net Taxable Valuation</u>	<u>Tax Rate Per \$100</u>	<u>Total Tax Levy</u>	<u>Collections of Current Taxes</u>	<u>Percentage of Levy Collected Currently</u>
2009	2010	\$ 8,808,022,334	\$ 6,001,311,064	\$ 0.07800	\$ 4,051,794	\$ 3,902,025	96.30%
2008	2009	7,044,415,407	6,100,325,422	0.07800	4,679,504	4,487,291	95.89%
2007	2008	6,420,108,253	5,649,952,348	0.06800	3,823,592	3,686,270	96.41%
2006	2007	5,772,539,864	5,030,828,350	0.06800	3,403,543	3,271,485	96.12%
2005	2006	6,188,986,520	4,533,989,636	0.06500	2,947,093	2,821,359	95.73%
2004	2005	5,302,335,538	3,994,187,374	0.07000	2,795,931	2,682,137	95.93%
2003	2004	4,736,905,067	3,596,644,408	0.07000	2,517,651	2,376,411	94.39%
2002	2003	3,967,823,787	2,935,154,377	0.07000	2,054,608	1,982,697	96.50%
2001	2002	3,089,203,925	2,613,617,963	0.10929	2,856,423	2,751,878	96.34%
2000	2001	2,629,477,261	2,032,117,293	0.11400	2,316,614	2,229,972	96.26%

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December 8, 2010

S. Cass Weiland
(214) 758-1504
cweiland@pattonboggs.com

Ms. Rachel Anderson
Henry & Peters, PC
3310 S. Broadway Avenue
Suite 100
Tyler, Texas 75701

Re: Annual Audit of Kaufman County, Texas

Dear Ms. Anderson:

By letter dated October 29, 2010, Mr. Hal D. Jones, County Auditor for Kaufman County, Texas ("the County"), has requested that this firm furnish you with certain information in connection with your examination of the accounts of the County as of September 30, 2010, and from that period to the effective date of this response. Mr. Jones has advised us that we are only to consider as material matters as to which we have been engaged and to which we have devoted substantive attention on behalf of the County in the form of legal consultation or representation involving amounts in excess of \$5,000 individually or in the aggregate, and any pending or threatened litigation, claims or assessments as to which we have been engaged but to which we have not yet devoted substantive attention.

We call your attention to the fact that during the year ended September 30, 2010, this firm represented the County only as special counsel for certain litigation matters. There may exist matters of a legal nature which could have a bearing on the County's financial condition with respect to which we have not been consulted.

Subject to the foregoing and to the last two paragraphs of this letter, we advise you that since October 1, 2010, we have not been engaged to give substantive attention to, or represent the County in connection with, material loss contingencies coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the second to last paragraph of this letter (i.e., overtly threatened or pending litigation), except as follows:

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Jerry and Marsha Chambers v. Sherrie Slayton, et al.; Cause No. 81338-422 (422nd District Court of Kaufman County, Texas): This is a premises liability case filed in August 2010, by *pro se* Plaintiffs Marsha Chambers and her husband, Jerry Chambers, alleging negligence on the part of the County of Kaufman for an alleged obstructed view of oncoming traffic as a result of grass overgrowth, which resulted in a motorcycle accident. *Pro se* Plaintiffs also name ten other parties, the majority of which are governmental agencies, or government officials. The County has answered the lawsuit, and is currently in the discovery process.

Justin Wayne Smith v. Kaufman County, et al.; Cause No. 3:10-CV-703-L-BK (NDTX – Dallas Division): This is a medical deliberate indifference suit filed on April 7, 2010, which was filed by a *pro se* Plaintiff Justin Wayne Smith, who now has an attorney. During the time encompassed by the lawsuit, Smith was an inmate in the Kaufman County Jail. He is presently being held in TDCJ. He alleges that while incarcerated at Kaufman County Jail, he was not given proper and/or adequate medical attention, and that as a result of that neglect and deliberate indifference, his large intestine had to be surgically removed. This matter is beginning the discovery phase. No specific amount of damages has been claimed.

As of December 2, 2010, the County owes \$6,457 to this firm for billed services and disbursements and owed \$3,829 for unbilled services and disbursements.

This letter contains opinion work product of counsel based in part on confidential communications between the County and its counsel, which may be subject to the attorney work product and attorney-client privileges. Neither the County nor we intend to waive the protection of the attorney work product doctrine or the attorney-client privilege with respect to any information contained in this letter or any of the files we maintain relating to the County. The information and opinions contained herein are provided to you confidentially for the limited purpose of disclosing actual and contingent liabilities of the County, and this letter may not be disclosed to third parties without the express written consent of the County and this firm unless a court of competent jurisdiction so orders.

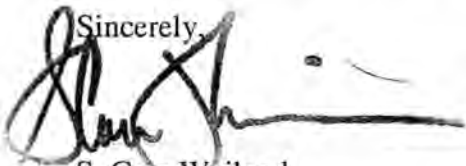
This response is limited by, and in accordance with, the American Bar Association's Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information issued in December 1975 (the "Statement"). Without limiting the generality of the foregoing, the limitations set forth in Paragraphs 2 and 7 of the Statement on the scope and use of this response are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the Statement and the accompanying Commentary which is an integral part of the Statement. Consistent with the last sentence of Paragraph 6 of the Statement and pursuant to the County's request, this will confirm as correct the County's understanding as set forth in its audit inquiry letter to us that whenever, in the course of

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performing legal services for the County with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, we have formed a professional conclusion that the County must disclose or consider disclosure concerning such possible claim or assessment, we, as a matter of professional responsibility to the County, will so advise the County and will consult with the County concerning the question of such disclosure and the applicable requirements of the Statement of Financial Accounting Standards No. 5.

Consistent with Paragraph 5 of the Statement and the accompanying Commentary, we do not comment to auditors upon any unasserted possible claims or assessments unless the County has specifically identified and specifically requested that we comment upon any such unasserted possible claims or assessments in its audit inquiry letter to us, and we do not represent, nor should any inference from this response be drawn, that the unasserted possible claims or assessments specifically identified in the County's audit inquiry letter to us, if any, represent all unasserted possible claims or assessments of which we may be aware or that we necessarily concur in the County's determination of which unasserted possible claims or assessments warrant specification by the County to us in its audit inquiry letter to us.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Cass Weiland", with a long horizontal flourish extending to the right.

S. Cass Weiland

SCW:mcw

cc: Kaufman County Auditor