

**KAUFMAN COUNTY, TEXAS**

**ANNUAL FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011**

**KAUFMAN COUNTY, TEXAS**  
**ANNUAL FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011**

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# KAUFMAN COUNTY, TEXAS

## DIRECTORY OF OFFICIALS

SEPTEMBER 30, 2011

### **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   |

(continued)

# KAUFMAN COUNTY, TEXAS

## DIRECTORY OF OFFICIALS (Continued) SEPTEMBER 30, 2011

### **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         |

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# **FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas, as of and for the year ended September 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kaufman County, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas, as of September 30, 2011, 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 June 11, 2012, on our consideration of Kaufman County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 48 through 50, and the required supplementary information on pages 46 through 47, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Pattillo, Brown + Hill, L.L.P.*

June 11, 2012

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

## 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, 2011. 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 \$16,864,198 (net assets). The balance of unrestricted net assets at year-end was \$803,345.
- Total net assets increased by \$6,691,485 due primarily to an increase in charges for services of \$2,905,657 and prior period adjustments of \$5,237,060. There was also a reduction in expenses of \$5,260,869 over FY 2010.
- The County's total liabilities decreased by \$4,523,318 from the previous year due to the removal of leases that did not meet the capital lease criteria and payments on outstanding debt of \$2,417,855.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$5,422,891, an increase of \$2,310,088 from the previous year. The General Fund fund balance is available for spending at the County's discretion (unassigned fund balance).
- The County has accrued a potential liability of \$877,906 for certain legal actions and claims arising in the ordinary course of operations.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 11 – 12 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific purposes 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 three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Road and Bridge Fund and 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 13 – 18 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 19 – 21 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 22 of this report.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 – 45.

**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 \$16,864,198 as of September 30, 2011.

The County's investment in capital assets (e.g., land, infrastructure, machinery and equipment and furniture and fixtures), less its related debt is 68% of net assets. These assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets decreased \$2,531,462 (net) while current and other assets increased \$4,699,629. Cash and investment balances increased \$1,023,371, primarily due to the County's monitoring of expenses and conservative budgeting. Long-term liabilities decreased from the prior year by \$(3,141,078). The predominant reason for the decrease is leases from the balance sheet that did not meet the capital lease criteria, and payments on outstanding debt of \$2,417,855.

**Governmental activities.** Governmental activities increased the County's net assets by \$6,691,485. The increase from prior year is due primarily to the \$5,260,869 decrease in County expenditures. County revenues increased by \$218,365 due primarily to increased charges for services.

**Table – 1**  
**Kaufman County, Texas' Net Assets**

|   | Governmental Activities |                      |
|---|-------------------------|----------------------|
|   | 2011                    | 2010                 |
| Current and other assets                        | \$ 11,371,360           | \$ 6,671,731         |
| Capital assets                                  | <u>27,873,826</u>       | <u>30,405,288</u>    |
| Total assets                                    | <u>39,245,186</u>       | <u>37,077,019</u>    |
| Long-term liabilities                           | 20,954,493              | 24,037,177           |
| Other liabilities                               | <u>1,426,495</u>        | <u>2,867,129</u>     |
| Total liabilities                               | <u>22,380,988</u>       | <u>26,904,306</u>    |
| <b>Net assets</b>                               |                         |                      |
| Invested in capital assets, net of related debt | 11,447,866              | 9,996,622            |
| Restricted                                      | 4,612,987               | 869,345              |
| Unrestricted                                    | <u>803,345</u>          | <u>( 693,254)</u>    |
| Total net assets                                | <u>\$ 16,864,198</u>    | <u>\$ 10,172,713</u> |

**Table – 2**  
**Kaufman County, Texas' Changes in Net Assets**

|   | Governmental Activities |               |
|---|-------------------------|---------------|
|   | 2011                    | 2010          |
| <b>REVENUES</b>                           |                         |               |
| General revenues:                         |                         |               |
| Property taxes                            | \$ 29,937,021           | \$ 33,567,845 |
| Charges for services                      | 10,036,025              | 7,130,368     |
| Grants and contributions                  | 3,307,559               | 1,512,661     |
| Investment income                         | 237,663                 | 76,319        |
| Miscellaneous                             | 52,523                  | 1,063,696     |
| Gain on disposal of capital assets        | -                       | 1,537         |
| Total revenues                            | 43,570,791              | 43,352,426    |
| <b>EXPENSES</b>                           |                         |               |
| General government                        | 11,697,382              | 12,577,439    |
| Public safety and corrections             | 16,644,150              | 19,559,418    |
| Judicial                                  | 5,499,160               | 5,413,190     |
| Infrastructure and environmental services | 6,287,898               | 7,181,073     |
| Health and human services                 | 344,105                 | 1,554,138     |
| Interest and fiscal charges               | 879,785                 | 839,371       |
| Community service                         | 763,886                 | 252,606       |
| Total expenses                            | 42,116,366              | 47,377,235    |
| <b>CHANGE IN NET ASSETS</b>               | 1,454,425               | ( 4,024,809)  |
| <b>NET ASSETS, BEGINNING, RESTATED</b>    | 15,409,773              | 14,197,522    |
| <b>NET ASSETS, ENDING</b>                 | \$ 16,864,198           | \$ 10,172,713 |

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Kaufman County. At the end of the year, unassigned total fund balance of the General Fund was \$1,005,144. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned total fund balance represents 3% of total General Fund expenditures.

The fund balance of the General Fund increased by \$2,675,067 during the fiscal year. Key factors of the increase were increased revenues and decreased expenditures over FY 2010. General fund revenues increased by \$1,895,307, while expenditures decreased by \$1,786,429.

The General Road and Bridge Fund had an ending fund balance of \$1,310,650. This fund includes the General Road and Bridge Fund as well as the four individual precinct road and bridge funds.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the actual and the final amended budget were significant (\$3,268,504 less than budgeted). This is briefly summarized as follows:

- Due to the County's deficit fund balance at the end of FY 2010, efforts to control funds were implemented. The County stayed \$3,193,953 under budget in expenditures through cost cutting measures. Things such as furlough days helped the County reduce expenditures which in turn helped increase fund balance.
- The County was very close to budget with revenues. Revenues collected were \$74,551 more than 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 \$27,873,826 (net of accumulated depreciation), a decrease of \$2,531,462 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. The other part of this decrease was the removal of equipment that did not meet the criteria for being considered a capital lease.

**Table 3  
Kaufman County, Texas' Capital Assets**

|                                | Governmental Activities |                      |
|--------------------------------|-------------------------|----------------------|
|                                | 2011                    | 2010                 |
| Land                           | \$ 1,266,957            | \$ 1,250,318         |
| Public monuments               | 712,736                 | 712,736              |
| Buildings & improvements       | 27,215,605              | 26,354,980           |
| Infrastructure                 | 12,147,226              | 12,147,226           |
| Machinery and equipment        | 17,680,133              | 18,718,493           |
|                                | <u>59,022,657</u>       | <u>59,183,753</u>    |
| Less: accumulated depreciation | <u>(31,148,831)</u>     | <u>(28,778,465)</u>  |
| Total capital assets, net      | <u>\$ 27,873,826</u>    | <u>\$ 30,405,288</u> |

**Long-term Debt.** At the end of the fiscal year, the County had total debt outstanding of \$20,954,493 which is a decrease of \$3,141,078 from the prior year.

**Table 4  
Kaufman County, Texas' Outstanding Debt**

|                            | Governmental Activities |                      |
|----------------------------|-------------------------|----------------------|
|                            | 2011                    | 2010                 |
| Certificates of obligation | \$ 14,770,000           | \$ 15,755,000        |
| Bond premiums              | 53,353                  | 58,394               |
| Tax Note                   | 730,000                 | 1,075,000            |
| Compensated absences       | 1,475,729               | 1,336,143            |
| Capital leases             | 872,607                 | 3,578,666            |
| OPEB                       | 2,174,898               | 1,442,368            |
| Legal accrual              | 877,906                 | 850,000              |
| Total Outstanding Debt     | <u>\$ 20,954,493</u>    | <u>\$ 24,095,571</u> |

State statutes limit the amount of general obligation debt that a county may issue to 10% of its total assessed valuation. The current debt limit for Kaufman County is \$533,580,366, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 36 on page 38.

### **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 2011 financial statements, and the effect for 2012 will not be material. However, as with the Terrell TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.
- During the 2010 year, the County entered into a separate agreement with the City of Forney to participate in its TIF as well, utilizing the same funding structure as the Terrell TIF noted above. There was no effect on the 2011 financial statements, and the effect for 2012 will not be material. However, as with the Terrell TIF, the financial commitment of the County will become significant if the expected development and redevelopment occur as anticipated.

- Estimated revenue for fiscal year 2012 is \$33,195,388 for the General Fund and estimated expenditures are \$33,163,657. The total tax rate remained the same, at \$.5565 per \$100.

## **REQUESTS FOR INFORMATION**

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

**BASIC  
FINANCIAL STATEMENTS**

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# KAUFMAN COUNTY, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>ASSETS</b>  |                            |
| Cash and cash equivalents                                | \$ 6,221,260               |
| Taxes receivable, net of allowance<br>for uncollectibles | 2,435,454                  |
| Accounts receivable                                      | 2,364,345                  |
| Due from other governments                               | 244,626                    |
| Deferred charges   | 105,675                    |
| Capital assets, net:                                     |                            |
| Not subject to depreciation                              | 1,979,693                  |
| Subject to depreciation                                  | 25,894,133                 |
| Total assets   | 39,245,186                 |
| <b>LIABILITIES</b>                                       |                            |
| Accounts payable   | 593,113                    |
| Accrued liabilities                                      | 424,241                    |
| Due to other governments                                 | 287,695                    |
| Unearned revenue   | 24,540                     |
| Accrued interest   | 96,906                     |
| Long-term liabilities:                                   |                            |
| Portion payable within one year:                         |                            |
| Compensated absences payable                             | 295,146                    |
| Capital leases   | 245,327                    |
| Bond premiums  | 5,041                      |
| Tax note   | 355,000                    |
| Certificates of obligation payable                       | 1,030,000                  |
| Portion payable after one year:                          |                            |
| Other postemployment benefits payable                    | 2,174,898                  |
| Legal liability accrual                                  | 877,906                    |
| Compensated absences payable                             | 1,180,583                  |
| Capital leases   | 627,280                    |
| Bond premiums  | 48,312                     |
| Tax note   | 375,000                    |
| Certificates of obligation payable                       | 13,740,000                 |
| Total liabilities  | 22,380,988                 |
| <b>NET ASSETS</b>  |                            |
| Invested in capital assets, net of related debt          | 11,447,866                 |
| Restricted:  |                            |
| Road and bridge projects                                 | 1,568,261                  |
| Public safety  | 294,921                    |
| Judicial   | 882,480                    |
| Library services   | 24,002                     |
| Fire code enforcement                                    | 79,965                     |
| Historical preservation                                  | 25,672                     |
| Records management                                       | 794,625                    |
| Capital projects   | 927,640                    |
| Other purposes   | 15,421                     |
| Unrestricted   | 803,345                    |
| Total net assets   | \$ 16,864,198              |

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

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**KAUFMAN COUNTY, TEXAS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

| Functions/Programs                  | Expenses             | Program Revenues        |  |  | Net (Expenses)                           |
|-------------------------------------|----------------------|-------------------------|--|--|--|
|                                     |                      | Charges<br>for Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Revenues and<br>Changes in<br>Net Assets |
|                                     |                      |                         |  |  | Governmental<br>Activities               |
| Governmental activities:            |                      |                         |  |  |  |
| General government                  | \$ 11,697,382        | \$ 3,534,093            | \$ 338,467                               | \$ 208,604                             | \$( 7,616,218)                           |
| Public safety and corrections       | 16,644,150           | 1,190,940               | 1,224,238                                | 915,067                                | ( 13,313,905)                            |
| Judicial                            | 5,499,160            | 1,998,520               | 188,598                                  | -                                      | ( 3,312,042)                             |
| Community services                  | 763,886              | -                       | 353,412                                  | -                                      | ( 410,474)                               |
| Infrastructure and environmental    | 6,287,898            | 3,312,472               | 79,173                                   | -                                      | ( 2,896,253)                             |
| Health and human services           | 344,105              | -                       | -  | -                                      | ( 344,105)                               |
| Interest and fiscal charges         | 879,785              | -                       | -  | -                                      | ( 879,785)                               |
| Total governmental activities       | <u>42,116,366</u>    | <u>10,036,025</u>       | <u>2,183,888</u>                         | <u>1,123,671</u>                       | <u>( 28,772,782)</u>                     |
| Total primary government            | \$ <u>42,116,366</u> | \$ <u>10,036,025</u>    | \$ <u>2,183,888</u>                      | \$ <u>1,123,671</u>                    | <u>( 28,772,782)</u>                     |
| General revenues:                   |                      |                         |  |  |  |
| Property taxes                      |                      |                         |  |  | 29,937,021                               |
| Investment income                   |                      |                         |  |  | 237,663                                  |
| Miscellaneous                       |                      |                         |  |  | <u>52,523</u>                            |
| Total general revenues              |                      |                         |  |  | <u>30,227,207</u>                        |
| Change in net assets                |                      |                         |  |  | 1,454,425                                |
| Net assets, beginning               |                      |                         |  |  | <u>10,172,713</u>                        |
| Net assets- prior period adjustment |                      |                         |  |  | 5,237,060                                |
| Net assets, beginning, restated     |                      |                         |  |  | <u>15,409,773</u>                        |
| Net assets, ending                  |                      |                         |  |  | <u>\$ 16,864,198</u>                     |

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

**KAUFMAN COUNTY, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2011**

|   | <u>General</u>          | <u>General<br/>Road<br/>and Bridge</u> | <u>Construction<br/>Projects</u> |
|---|-------------------------|--|----------------------------------|
| <b>ASSETS</b>                           |                         |  |                                  |
| Cash and cash equivalents               | \$ 1,546,156            | \$ 1,288,813                           | \$ 102,640                       |
| Investments                             | 60,000                  | -                                      | 825,000                          |
| Receivables:                            |                         |  |                                  |
| Taxes                                   | 1,943,514               | 287,366                                | -                                |
| Accounts                                | 2,266,000               | 98,345                                 | -                                |
| Due from other governments              | <u>218,991</u>          | <u>-</u>                               | <u>-</u>                         |
| <br>Total assets                        | <br><u>\$ 6,034,661</u> | <br><u>\$ 1,674,524</u>                | <br><u>\$ 927,640</u>            |
| <b>LIABILITIES AND FUND BALANCES</b>    |                         |  |                                  |
| Liabilities:                            |                         |  |                                  |
| Accounts payable                        | 477,123                 | 58,014                                 | -                                |
| Accrued liabilities                     | 367,584                 | 48,249                                 | -                                |
| Due to other governments                | 270,958                 | -                                      | -                                |
| Deferred revenue                        | <u>3,913,852</u>        | <u>257,611</u>                         | <u>-</u>                         |
| Total liabilities                       | <u>5,029,517</u>        | <u>363,874</u>                         | <u>-</u>                         |
| Fund balances:                          |                         |  |                                  |
| Restricted                              |                         | 1,310,650                              | 927,640                          |
| Unassigned                              | <u>1,005,144</u>        | <u>-</u>                               | <u>-</u>                         |
| Total fund balances                     | <u>1,005,144</u>        | <u>1,310,650</u>                       | <u>927,640</u>                   |
| <br>Total liabilities and fund balances | <br><u>\$ 6,034,661</u> | <br><u>\$ 1,674,524</u>                | <br><u>\$ 927,640</u>            |

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

| <u>Other<br/>Nonmajor<br/>Governmental</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---|
| \$ 2,243,131                               | \$ 5,180,740                            |
| 50   | 885,050                                 |
| 204,574                                    | 2,435,454                               |
| -  | 2,364,345                               |
| <u>25,635</u>                              | <u>244,626</u>                          |
| <br>                                       |   |
| \$ <u>2,473,390</u>                        | \$ <u>11,110,215</u>                    |
| <br>                                       |   |
| 57,976                                     | 593,113                                 |
| 8,408                                      | 424,241                                 |
| 16,737                                     | 287,695                                 |
| <u>210,812</u>                             | <u>4,382,275</u>                        |
| <u>293,933</u>                             | <u>5,687,324</u>                        |
| <br>                                       |   |
| 2,179,457                                  | 4,417,747                               |
| -  | 1,005,144                               |
| <u>2,179,457</u>                           | <u>5,422,891</u>                        |
| <br>                                       |   |
| \$ <u>2,473,390</u>                        | \$ <u>11,110,215</u>                    |

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## KAUFMAN COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

|   |                     |                      |
|---|---------------------|----------------------|
| Fund balances - governmental funds  |                     | \$ 5,422,891         |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different due to the following:</p>  |                     |                      |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:</p>  |                     |                      |
| Governmental capital assets   | \$ 30,932,331       |                      |
| Less: accumulated depreciation  | <u>( 3,058,505)</u> | 27,873,826           |
| <p>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.</p>   |                     |                      |
| Property taxes  | 2,127,949           |                      |
| Court fines   | <u>2,229,786</u>    |                      |
|   |                     | 4,357,735            |
| <p>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.</p>  |                     |                      |
|   |                     | ( 2,174,898)         |
| <p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p> |                     |                      |
|   |                     | ( 17,796,014)        |
| <p>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.</p>  |                     |                      |
|   |                     | 155,470              |
| <p>Potential legal liability stemming from judgment that is not payable from current resources and therefore are not reported in the governmental funds.</p>  |                     |                      |
|   |                     | ( 877,906)           |
| <p>Interest payable used in the County's governmental activities are not payable from current resources and therefore are not reported in the governmental funds.</p>   |                     |                      |
|   |                     | <u>( 96,906)</u>     |
| Net assets of governmental activities   |                     | <u>\$ 16,864,198</u> |

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

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  | General             | General<br>Road and Bridge | Construction<br>Projects |
|--|---------------------|----------------------------|--------------------------|
| <b>REVENUES</b>  |                     |                            |                          |
| Property taxes   | \$ 28,037,727       | \$ 2,972,401               | \$ -                     |
| Mixed beverage taxes   | 95,752              | -                          | -                        |
| License and permits  | 45,263              | -                          | -                        |
| Fees of office   | 3,144,165           | 2,158,871                  | -                        |
| Charges for services   | 218,309             | 327,214                    | -                        |
| Forfeitures  | -                   | -                          | -                        |
| Intergovernmental  | 1,785,232           | 79,173                     | -                        |
| Investment income  | 209,027             | 15,010                     | -                        |
| Miscellaneous  | 27,283              | 4,445                      | -                        |
| Total revenues   | <u>33,562,758</u>   | <u>5,557,114</u>           | <u>-</u>                 |
| <b>EXPENDITURES</b>  |                     |                            |                          |
| General government   | 10,284,905          | -                          | -                        |
| Public safety and corrections  | 14,031,950          | -                          | -                        |
| Judicial   | 4,880,329           | -                          | -                        |
| Community services   | 738,517             | -                          | -                        |
| Infrastructure and environmental                                     | 356,152             | 5,275,588                  | -                        |
| Health and human service   | 331,785             | -                          | -                        |
| Capital outlay   | 314,080             | 59,891                     | 6,333                    |
| Debt service:  |                     |                            |                          |
| Principal  | 82,403              | 602,638                    | -                        |
| Interest and fiscal charges  | 16,432              | 45,661                     | -                        |
| Total expenditures   | <u>31,036,553</u>   | <u>5,983,778</u>           | <u>6,333</u>             |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <u>2,526,205</u>    | <u>( 426,664)</u>          | <u>( 6,333)</u>          |
| <b>OTHER FINANCING SOURCES (USES)</b>                                |                     |                            |                          |
| Proceeds from sale of capital assets                                 | -                   | 280,299                    | -                        |
| Proceeds from insurance  | 80,729              | -                          | -                        |
| Operating transfers in   | 68,472              | 36,679                     | -                        |
| Operating transfers out  | ( 557,926)          | ( 42,898)                  | -                        |
| Issuance of capital lease  | 34,485              | 50,688                     | -                        |
| Total other financing sources (uses)                                 | <u>( 374,240)</u>   | <u>324,768</u>             | <u>-</u>                 |
| <b>NET CHANGE IN FUND BALANCES</b>                                   | 2,151,965           | ( 101,896)                 | ( 6,333)                 |
| <b>FUND BALANCES, BEGINNING</b>                                      | <u>( 1,669,923)</u> | <u>1,324,125</u>           | <u>933,973</u>           |
| <b>PRIOR PERIOD ADJUSTMENT</b>                                       | 523,102             | 88,421                     | -                        |
| <b>FUND BALANCES, BEGINNING, RESTATED</b>                            | <u>( 1,146,821)</u> | <u>1,412,546</u>           | <u>933,973</u>           |
| <b>FUND BALANCES, ENDING</b>   | <u>\$ 1,005,144</u> | <u>\$ 1,310,650</u>        | <u>\$ 927,640</u>        |

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

| Other<br>Nonmajor<br>Governmental | Total<br>Governmental<br>Funds |
|-----------------------------------|--------------------------------|
| \$ 2,156,691                      | \$ 33,166,819 ✓                |
| -                                 | 95,752 ✓                       |
| 21,589                            | 66,852 ✓                       |
| 635,621                           | 5,938,657 ✓                    |
| -                                 | 545,523 ✓                      |
| 354,056                           | 354,056 ✓                      |
| 513,470                           | 2,377,875 ✓                    |
| 13,626                            | 237,663 ✓                      |
| 57,647                            | 89,375 ✓                       |
| <u>3,752,700</u>                  | <u>42,872,572</u>              |
| 135,318                           | 10,420,223 ✓                   |
| 1,108,917                         | 15,140,867 ✓                   |
| 460,651                           | 5,340,980 ✓                    |
| 5,910                             | 744,427 ✓                      |
| -                                 | 5,631,740 ✓                    |
| -                                 | 331,785 ✓                      |
| 70,689                            | 450,993                        |
| 1,330,000                         | 2,015,041                      |
| <u>773,076</u>                    | <u>835,169</u>                 |
| <u>3,884,561</u>                  | <u>40,911,225</u>              |
| ( 131,861)                        | <u>1,961,347</u>               |
| -                                 | 280,299 ✓                      |
| -                                 | 80,729 ✓                       |
| 521,247                           | 626,398                        |
| ( 25,574)                         | ( 626,398)                     |
| -                                 | 85,173                         |
| <u>495,673</u>                    | <u>446,201</u>                 |
| 363,812                           | 2,407,548                      |
| <u>2,524,628</u>                  | <u>3,112,803</u>               |
| ( 708,983)                        | ( 97,460)                      |
| <u>1,815,645</u>                  | <u>3,015,343</u>               |
| \$ <u>2,179,457</u>               | \$ <u>5,422,891</u>            |

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## KAUFMAN COUNTY, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

|   |                     |                     |
|---|---------------------|---------------------|
| Net change in fund balances - total governmental funds:   |                     | \$ 2,407,548        |
| Amounts reported for governmental activities in the Statement of Activities are different   |                     |                     |
| <p>Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost and accumulated depreciation of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p> |                     |                     |
| Expenditures for capital assets   | \$ 471,715          |                     |
| Less: current year depreciation   | <u>( 3,058,505)</u> | ( 2,586,790)        |
| <p>The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.</p>   |                     |                     |
|   |                     | 802,482             |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>   |                     |                     |
| Property taxes  | ( 500,889)          |                     |
| Court fines   | <u>338,483</u>      | ( 162,406)          |
| <p>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.</p>     |                     |                     |
|   |                     | 1,924,926           |
| <p>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.</p>  |                     |                     |
|   |                     | ( 19,545)           |
| <p>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</p>  |                     |                     |
|   |                     | ( 27,906)           |
| <p>Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>  |                     |                     |
| Compensated absences  | ( 139,586)          |                     |
| OPEB obligation   | <u>( 732,530)</u>   | ( 872,116)          |
| <p>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.</p>  |                     |                     |
|   |                     | <u>( 11,768)</u>    |
| Change in net assets of governmental activities   |                     | \$ <u>1,454,425</u> |

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

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**KAUFMAN COUNTY, TEXAS**

**STATEMENT OF NET ASSETS**

**PROPRIETARY FUNDS**

**SEPTEMBER 30, 2011**

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

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

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**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2011**

|  | <u>Governmental<br/>Activities<br/>Internal<br/>Service</u> |
|--|---|
| <b>OPERATING REVENUES</b>                |   |
| Premiums and reimbursements              | \$ 4,137,961  |
| Total operating revenues                 | <u>4,137,961</u>  |
| <b>OPERATING EXPENSES</b>                |   |
| Insurance claims and administrative fees | <u>4,157,506</u>  |
| Total operating expenses                 | <u>4,157,506</u>  |
| <b>CHANGE IN NET ASSETS</b>              | ( 19,545)   |
| <b>NET ASSETS, BEGINNING</b>             | <u>175,015</u>  |
| <b>NET ASSETS, ENDING</b>                | \$ <u>155,470</u>   |

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

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**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**YEAR ENDED SEPTEMBER 30, 2011**

|   | <u>Governmental<br/>Activities<br/>Internal<br/>Service</u> |
|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |
| Cash received for premiums  | \$ 4,137,961  |
| Cash paid to customers  | ( 4,157,642)  |
| Net cash used by operating activities   | <u>( 19,681)</u>  |
| <b>NET DECREASE IN CASH</b>   | ( 19,681)   |
| <b>CASH, BEGINNING</b>  | <u>175,151</u>  |
| <b>CASH, ENDING</b>   | <u>\$ 155,470</u>   |
| <b>RECONCILIATION OF OPERATING INCOME TO<br/>NET CASH USED BY OPERATING ACTIVITIES:</b>   |   |
| Operating loss  | \$( 19,545)   |
| Adjustment to reconcile operating income to net cash<br>provided by operating activities: |   |
| Decrease in accrued liabilities   | <u>( 136)</u>   |
| <b>NET CASH USED BY OPERATING ACTIVITIES</b>  | <u>\$( 19,681)</u>  |

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

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**SEPTEMBER 30, 2011**

|                    | <u>Governmental<br/>Activities<br/>Internal<br/>Service</u> |
|--------------------|---|
| <b>ASSETS</b>      |   |
| Current assets:    |   |
| Cash               | <u>\$ 6,174,797</u>   |
| Total assets       | <u>\$ 6,174,797</u>   |
| <b>LIABILITIES</b> |   |
| Due to others      | <u>6,174,797</u>  |
| Total liabilities  | <u>\$ 6,174,797</u>   |

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

# KAUFMAN COUNTY, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

#### B. Government-wide and Fund Financial Statements

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

(continued)

## I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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

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

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

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

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

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Major governmental funds reported by the County are:

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

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

**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.

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

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

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

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

(continued)

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The County has one proprietary fund which is classified as an Internal Service Fund. The Insurance Fund is used to account for the County's group medical self-insurance program. Revenues are derived from County contributions, employee and retiree/COBRA premiums, investment of idle funds and stop-loss collections. Expenses are claims and administrative expenses.

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

### **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 Commissioners' Court. To transfer appropriations between line items, approval from the Court must be obtained. Annual appropriations lapse at fiscal year-end.

(continued)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities, and Net Assets or Equity**

**Encumbrances**

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

**Cash and Investments**

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

All investments of the County are made pursuant to the Texas Public Funds Investment Act. Investments at September 30, 2011, are stated at fair market value in accordance with provisions of GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*," and consist of obligations that are fully insured by the State of Texas.

**Prepaid Items**

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

**Capital Assets**

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

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

**(continued)**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Capital Assets (Continued)**

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

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

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

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

**Compensated Absences**

The County's permanent, fulltime employees with less than 8 years of service accrue 6-2/3 hours of vacation per month; those with 8 – 19 years of service accrue 10 hours per month; and those with service of 20 years or greater accrue 13-1/3 hours per month.

The County's permanent, fulltime employees accrue sick leave at the rate of 8 hours per month to a maximum 120 hours (90 days). Sick leave is paid to current employees if the employees are absent from work due to illness, injury or other situations requiring medical attention. An employee who leaves the County's employment for any reason other than retirement receives no compensation for accrued sick leave. Retiring employees who have at least 20 years of service are entitled to payment for up to 30 days of accrued sick leave, and the accrual is included in the government-wide financial statements.

(continued)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities, and Net Assets or Equity (Continued)**

**Long-term Obligations**

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

**Property Taxes**

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

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

The combined tax rate for the year ended September 30, 2011, was \$0.5565 per \$100 and was allocated as follows:

|                       |                  |
|-----------------------|------------------|
| General fund          | \$ 0.4717        |
| Debt service fund     | 0.0360           |
| Road and bridge funds | <u>0.0488</u>    |
| Total                 | <u>\$ 0.5565</u> |

**Fund Balance Classification**

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

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

**(continued)**

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Assets, Liabilities, and Net Assets or Equity (Continued)

#### **Fund Balance Classification** (Continued)

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

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

#### **Net Assets**

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

#### **Estimates**

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

## **II. DETAILED NOTES ON ALL FUNDS**

### **A. Cash and Investments**

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

#### **Cash**

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

#### **Investments**

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

Investments are categorized into these three categories of credit risk:

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

**(continued)**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Cash and Investments (Continued)**

**Investments (Continued)**

During the year ended September 30, 2011, all of the County's investments were invested with the State of Texas Local Government Investment Pool (TexPool), which is a public funds investment pool created by the Treasurer of the State of Texas. TexPool acts as custodian of investments purchased with local investment funds. TexPool acts as custodian of investments purchased with local investment funds. TexPool investments are stated at amortized cost, which in more cases, approximates the market value of the shares. The fair value of these investments at September 30, 2011 was \$885,050.

| <u>Investment</u>                      | <u>Fair Value</u> | <u>Weighted<br/>Average<br/>Maturity (Days)</u> | <u>Credit<br/>Risk</u> |
|--|-------------------|---|------------------------|
| TexPool                                | \$ 885,050        | 44  | AAAm                   |
| Portfolio weighted<br>average maturity | \$ 885,050        | 44  |                        |

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

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

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

*Custodial Credit Risk* – Custodial credit risk is the risk for deposits that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The County requires all bank deposits to be collateralized at a level not less than 100% of the total uninsured deposits. At September 30, 2011, the County is fully collateralized.

**(continued)**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Cash and Investments (Continued)**

**Investments (Continued)**

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

**B. Receivables**

Receivables of the County consist of property taxes, fines and fees, and beverage tax. Beverage tax revenue is a small portion of the revenues for the County. Property taxes are the largest revenue producer for the County and are described above in the Summary of Significant Accounting Policies. The following is a summary of the receivables for the County’s individual funds at September 30, 2011, per the government-wide statements, including the allowance for uncollectible accounts:

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

|                                    | <u>General</u>       | <u>General Road<br/>and Bridge</u> | <u>Other<br/>Governmental</u> | <u>Total</u>         |
|------------------------------------|----------------------|------------------------------------|-------------------------------|----------------------|
| Receivables:                       |                      |                                    |                               |                      |
| Taxes                              | \$ 2,157,281         | \$ 319,296                         | \$ 227,305                    | \$ 2,703,882         |
| Accounts                           | 36,214               | 98,345                             | -                             | 134,559              |
| Adjudicated fine receivable        | 21,528,521           | -                                  | -                             | 21,528,521           |
| Due from other governments         | <u>218,991</u>       | <u>-</u>                           | <u>25,635</u>                 | <u>244,626</u>       |
| Gross receivables                  | 23,941,007           | 417,641                            | 252,940                       | 24,611,588           |
| Less: allowance for uncollectibles | <u>( 19,512,502)</u> | <u>( 31,930)</u>                   | <u>( 22,731)</u>              | <u>( 19,567,163)</u> |
| Net total receivables              | <u>\$ 4,428,505</u>  | <u>\$ 385,711</u>                  | <u>\$ 230,209</u>             | <u>\$ 5,044,425</u>  |

(continued)

## II. DETAILED NOTES ON ALL FUNDS (Continued)

### B. Receivables (Continued)

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

| <u>Receivable Fund</u>             | <u>Unavailable</u>  | <u>Unearned</u>  |
|------------------------------------|---------------------|------------------|
| General                            |                     |                  |
| Delinquent property tax receivable | \$ 1,684,066        | \$ -             |
| Fines                              | <u>2,229,786</u>    | <u>-</u>         |
| Total general                      | <u>3,913,852</u>    | <u>-</u>         |
| Road and bridge                    |                     |                  |
| Delinquent property tax receivable | <u>257,611</u>      | <u>-</u>         |
| Total road and bridge              | <u>257,611</u>      | <u>-</u>         |
| Other governmental                 |                     |                  |
| Delinquent property tax receivable | 186,272             | -                |
| Grants                             | <u>-</u>            | <u>24,540</u>    |
| Total other governmental           | <u>186,272</u>      | <u>24,540</u>    |
| Totals                             | <u>\$ 4,357,735</u> | <u>\$ 24,540</u> |

### C. Capital Assets

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

(continued)

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital Assets (Continued)**

Capital asset activity for the year ended September 30, 2011, is as follows:

**Primary Government**

|   | Beginning<br>Balance | Increases              | Decreases           | Adjustments          | Ending<br>Balance    |
|---|----------------------|------------------------|---------------------|----------------------|----------------------|
| <b>Governmental activities:</b>             |                      |                        |                     |                      |                      |
| Capital assets, not being depreciated:      |                      |                        |                     |                      |                      |
| Land  | \$ 1,250,318         | \$ 16,639              | \$ -                | \$ -                 | \$ 1,266,957         |
| Public monuments                            | 712,736              | -                      | -                   | -                    | 712,736              |
| Total assets not being depreciated          | <u>1,963,054</u>     | <u>16,639</u>          | <u>-</u>            | <u>-</u>             | <u>1,979,693</u>     |
| Capital assets, being depreciated:          |                      |                        |                     |                      |                      |
| Buildings                                   | 26,354,980           | 860,625                | -                   | -                    | 27,215,605           |
| Infrastructure                              | 12,147,226           | -                      | -                   | -                    | 12,147,226           |
| Machinery and equipment                     | 18,718,493           | 455,076                | ( 273,452)          | ( 1,219,984)         | 17,680,133           |
| Total capital assets being depreciated      | <u>57,220,699</u>    | <u>1,315,701</u>       | <u>( 273,452)</u>   | <u>( 1,219,984)</u>  | <u>57,042,964</u>    |
| Less accumulated depreciation:              |                      |                        |                     |                      |                      |
| Buildings                                   | 9,023,971            | 737,628                | -                   | -                    | 9,761,599            |
| Infrastructure                              | 9,055,067            | 241,885                | -                   | 69,342               | 9,366,294            |
| Machinery and equipment                     | 10,699,427           | 2,078,992              | ( 215,309)          | ( 542,172)           | 12,020,938           |
| Total accumulated depreciation              | <u>28,778,465</u>    | <u>3,058,505</u>       | <u>( 215,309)</u>   | <u>( 472,830)</u>    | <u>31,148,831</u>    |
| Total capital assets being depreciated, net | <u>28,442,234</u>    | <u>( 1,742,804)</u>    | <u>( 58,143)</u>    | <u>( 747,154)</u>    | <u>25,894,133</u>    |
| Governmental activities capital assets, net | <u>\$ 30,405,288</u> | <u>\$ ( 1,726,165)</u> | <u>\$ ( 58,143)</u> | <u>\$ ( 747,154)</u> | <u>\$ 27,873,826</u> |

Depreciation expense for the year totaled \$3,058,505 and was charged to functions of the government-wide statement of activities as follows:

|                                  |                     |
|----------------------------------|---------------------|
| General government               | \$ 1,025,072        |
| Judicial                         | 39,329              |
| Public safety and corrections    | 1,168,725           |
| Infrastructure and environmental | 817,551             |
| Health and human services        | 4,879               |
| Community services               | 2,949               |
| Total depreciation expense       | <u>\$ 3,058,505</u> |

**D. Operating Leases**

The County is committed under various noncancelable operating leases for equipment including dump trucks. For the year ended September 30, 2011, lease expenditures totaled \$1,390,184. Future minimum operating lease commitments are as follows:

|                               |                   |
|-------------------------------|-------------------|
| Years Ending<br>September 30, |                   |
| 2012                          | \$ <u>724,150</u> |

(continued)

## II. DETAILED NOTES ON ALL FUNDS (Continued)

### E. Lease Obligations

The County is a party in several lease agreements for equipment and vehicles. The terms of the agreements provide an option to purchase the equipment during or at the end of the lease term. During the year ended September 30, 2011, the County entered into 9 new lease agreements classified as capital leases in addition to the 20 other leases capitalized in prior years. The County obtained 8 dump trucks, 3 pieces of road repair equipment, and software and equipment for the Sheriff's department in the current year. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases."

The assets acquired through capital leases are as follows:

|                                |                     |
|--------------------------------|---------------------|
| Asset:                         |                     |
| Machinery and equipment        | \$ 1,854,671        |
| Less: accumulated depreciation | ( 665,383)          |
| Total                          | \$ <u>1,189,288</u> |

Depreciation expense related to these leases for the year ended September 30, 2011, was \$234,739.

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, 2011:

| <u>Years Ending</u><br><u>September 30,</u> |                   |
|---|-------------------|
| 2012  | \$ 271,911        |
| 2013  | 401,053           |
| 2014  | 114,498           |
| 2015  | 108,053           |
| 2016  | <u>28,445</u>     |
| Total minimum lease payments                | 923,960           |
| Less: amount representing interest          | ( 51,353)         |
| Present value of minimum lease payments     | \$ <u>872,607</u> |

(continued)

### III. DETAILED NOTES ON ALL FUNDS (Continued)

#### F. Long-term Debt

During the year ended September 30, 2011, the following changes occurred in a long-term debt:

|                               | Beginning<br>Balance | Increases    | Decreases       | Adjustments     | Ending<br>Balance | Due Within<br>One Year |
|-------------------------------|----------------------|--------------|-----------------|-----------------|-------------------|------------------------|
| Governmental activities:      |                      |              |                 |                 |                   |                        |
| Certificates of obligation    | \$ 15,755,000        | \$ -         | \$ ( 985,000)   | \$ -            | \$ 14,770,000     | \$ 1,030,000           |
| Bond premiums                 | 58,394               | -            | ( 5,041)        | -               | 53,353            | 5,041                  |
| Tax note                      | 1,075,000            | -            | ( 345,000)      | -               | 730,000           | 355,000                |
| Compensated absences          | 1,336,143            | 413,710      | ( 274,124)      | -               | 1,475,729         | 295,146                |
| OPEB obligation               | 1,442,368            | 856,177      | ( 123,647)      | -               | 2,174,898         | -                      |
| Capital leases                | 3,578,666            | 85,173       | ( 685,043)      | ( 2,106,189)    | 872,607           | 245,327                |
| Legal accrual                 | 850,000              | 27,906       | -               | -               | 877,906           | -                      |
| Total governmental activities | \$ 24,095,571        | \$ 1,382,966 | \$ ( 2,417,855) | \$ ( 2,106,189) | \$ 20,954,493     | \$ 1,930,514           |

\$22,000,000 Certificates of Obligation, Series 2002, annual maturities ranging from \$710,000 to \$1,725,000 through February 15, 2022; interest varies from 4.0% to 5.0%.

\$ 14,770,000

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

730,000

Total governmental activities tax supported debt

\$ 15,500,000

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

The annual requirements to amortize the Certificates of Obligation outstanding at September 30, 2011, are as follows:

#### Certificate of Obligation

| Years Ending<br>September 30, | Principal     | Interest     | Total<br>Requirements |
|-------------------------------|---------------|--------------|-----------------------|
| 2012                          | \$ 1,030,000  | \$ 691,569   | \$ 1,721,569          |
| 2013                          | 1,080,000     | 646,762      | 1,726,762             |
| 2014                          | 1,135,000     | 600,369      | 1,735,369             |
| 2015                          | 1,190,000     | 546,500      | 1,736,500             |
| 2016                          | 1,255,000     | 485,375      | 1,740,375             |
| 2017-2021                     | 7,355,000     | 1,389,875    | 8,744,875             |
| 2022                          | 1,725,000     | 43,125       | 1,768,125             |
| Total                         | \$ 14,770,000 | \$ 4,403,575 | \$ 19,173,575         |

(continued)

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Long-term Debt (Continued)**

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

| <u>Years Ending<br/>September 30,</u> | <b>Tax Note</b>   |                  | <u>Total<br/>Requirements</u> |
|---------------------------------------|-------------------|------------------|-------------------------------|
|                                       | <u>Principal</u>  | <u>Interest</u>  |                               |
| 2012                                  | \$ 355,000        | \$ 23,316        | \$ 378,316                    |
| 2013                                  | <u>375,000</u>    | <u>7,913</u>     | <u>382,913</u>                |
| Total                                 | <u>\$ 730,000</u> | <u>\$ 31,229</u> | <u>\$ 761,229</u>             |

**G. Contingent Liabilities**

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

The County is involved in certain legal actions and claims arising in the ordinary course of its operations. As of September 30, 2011, the County has accrued an estimated liability of \$877,906 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.

**H. Interfund Activity**

Interfund transfers for the fiscal year ending September 30, 2011, are summarized below:

| <u>Transfer from</u>    | <u>Due to</u>           | <u>Amounts</u>    |
|-------------------------|-------------------------|-------------------|
| General                 | General road and bridge | \$ 36,679         |
|                         | Nonmajor governmental   | 521,247           |
| General road and bridge | General                 | 42,898            |
| Nonmajor governmental   | General                 | <u>25,574</u>     |
|                         |                         | <u>\$ 626,398</u> |

(continued)

### III. DETAILED NOTES ON ALL FUNDS (Continued)

#### I. Fund Balance

As of September 30, 2011, governmental fund balance is composed of the following:

| <u>Fund Balance Classification</u>       | <u>General<br/>Road<br/>and Bridge</u> | <u>Construction<br/>Projects</u> | <u>Other<br/>Governmental</u> | <u>Totals</u>       |
|--|--|----------------------------------|-------------------------------|---------------------|
| Restricted:                              |  |                                  |                               |                     |
| Road and bridge construction and repairs | \$ 1,310,650                           | \$ -                             | \$ -                          | \$ 1,310,650        |
| Capital acquisition and construction     | -                                      | 927,640                          | -                             | 927,640             |
| Public safety                            | -                                      | -                                | 294,921                       | 294,921             |
| Judicial                                 | -                                      | -                                | 882,480                       | 882,480             |
| Other                                    | -                                      | -                                | 15,421                        | 15,421              |
| Library services                         | -                                      | -                                | 24,002                        | 24,002              |
| Fire code enforcement                    | -                                      | -                                | 79,965                        | 79,965              |
| Historical preservation                  | -                                      | -                                | 25,672                        | 25,672              |
| Records management and preservation      | -                                      | -                                | 794,625                       | 794,625             |
| Debt service                             | -                                      | -                                | 62,371                        | 62,371              |
| Total governmental fund balance          | <u>\$ 1,310,650</u>                    | <u>\$ 927,640</u>                | <u>\$ 2,179,457</u>           | <u>\$ 4,417,747</u> |

### IV. OTHER INFORMATION

#### A. Pension Plan

##### Plan Description

Kaufman County provides retirement, disability and death benefits for all of its fulltime employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

(continued)

#### IV. OTHER INFORMATION (Continued)

##### A. Pension Plan (Continued)

###### **Plan Description** (Continued)

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

###### **Funding Policy**

The employer has elected the annually determined contribution rate (variable rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 8.46% for the months of the accounting year 2011, and 8.19% for the months of the accounting year 2010.

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

###### **Funding Status and Progress**

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/10                                | \$ 34,669,779                            | \$ 40,162,404  | \$ 5,492,625                       | 86.32%                  | \$ 20,684,283              | 26.55%   |

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

###### **Annual Pension Cost**

For the employer's accounting year ending September 30, 2011, the annual pension cost for the TCDRS plan for its employees was \$1,654,223, and the actual contributions were \$1,654,223.

(continued)

**IV. OTHER INFORMATION (Continued)**

**A. Pension Plan (Continued)**

**Actuarial Valuation Information**

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

|   |  |  |  |
|---|--|--|--|
| Actuarial Valuation Date                      | 12/31/10                                     | 12/31/09                                     | 12/31/08                                     |
| Actuarial cost method                         | Entry Age                                    | Entry Age                                    | Entry Age                                    |
| Amortization method                           | Level percent of payroll                     | Level percent of payroll                     | Level percent of payroll                     |
| GASB 25 equivalent single amortization period | 20 years; closed period                      | 20 years; closed period                      | 20 years; closed period                      |
| Amortization period for new gains/losses      | 20 years                                     | 20 years                                     | 20 years                                     |
| Asset valuation method                        | SAF: 10-yr smoothed value<br>ESF: Fund value | SAF: 10-yr smoothed value<br>ESF: Fund value | SAF: 10-yr smoothed value<br>ESF: Fund value |
| Actuarial Assumptions:                        |  |  |  |
| Investment rate of return*                    | 8.00%  | 8.00%  | 8.00%  |
| Projected salary increases*                   | 5.40%  | 5.40%  | 5.30%  |
| Inflation                                     | 3.50%  | 3.50%  | 3.50%  |
| Cost-of-living adjustments                    | 0.00%  | 0.00%  | 0.00%  |

\*Includes inflation at the stated rate

**Trend Information**

| <u>Plan/<br/>Calendar<br/>Year</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Actual<br/>Contribution</u> | <u>Percentage<br/>of ARC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|------------------------------------|--|--------------------------------|--|---------------------------------------|
| 09/30/09                           | 0.01%                                    | \$ 1,455,701                   | 100.0%                                       | \$ -                                  |
| 09/30/10                           | 0.01%                                    | 1,742,117                      | 100.0%                                       | -                                     |
| 09/30/11                           | 0.01%                                    | 1,654,223                      | 100.0%                                       | -                                     |

**B. Other Postemployment Benefits**

**Program Description**

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

(continued)

#### IV. OTHER INFORMATION (Continued)

##### B. Other Postemployment Benefits (Continued)

###### **Program Description** (Continued)

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 2011 were \$123,646. 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 2011 ranges from \$569.94 to \$284.97 for health insurance depending on gender and age. Retirees and current employees with 10 to 19 years of service are financially responsible for one-half of the monthly premiums.

###### **Annual OPEB Cost and Net OPEB Obligations**

The County's annual other postemployment benefit (OPEB) cost (expense) for the Retiree Health Program is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (of funding excess) over a period beginning October 1, 2008 as required by GASB. The following table shows the components of the County's annual OPEB cost for the year ending September 30, 2011, the amount actually contributed to the plan, and changes in the County's net OPEB obligation.

(continued)

IV. OTHER INFORMATION (Continued)

B. Other Postemployment Benefits (Continued)

**Annual OPEB Cost and Net OPEB Obligations** (Continued)

|  |                     |
|--|---------------------|
| Annual required contribution               | \$ 851,405          |
| Interest on net OPEB obligation            | 64,907              |
| Adjustment to the ARC                      | <u>( 60,136)</u>    |
| Annual OPEB cost                           | 856,176             |
| Contributions made                         | <u>( 123,646)</u>   |
| Increase (decrease) in net OPEB obligation | 732,530             |
| Net OPEB obligation/(asset), beginning     | <u>1,442,368</u>    |
| Net OPEB obligation/(asset), ending        | <u>\$ 2,174,898</u> |

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 was as follows:

| <u>Fiscal Year</u><br><u>Ending</u> | <u>Annual</u><br><u>OPEB</u><br><u>Cost</u> | <u>Employer</u><br><u>Amount</u><br><u>Contributed</u> | <u>Percentage of</u><br><u>Annual OPEB</u><br><u>Contributed</u> | <u>Net</u><br><u>OPEB</u><br><u>Obligation</u> |
|-------------------------------------|---|--|--|--|
| 09/30/2011                          | \$ 856,177                                  | \$ 123,646   | 14%  | \$ 2,174,898                                   |

**Funded Status and Funding Progress**

As of December 31, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,365,354, all of which was unfunded. There are no valuation assets available to offset the liabilities of the plan.

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

(continued)

#### IV. OTHER INFORMATION (Continued)

##### B. Other Postemployment Benefits (Continued)

###### **Actuarial Methods and Assumptions**

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

The actuarial methods and significant assumptions used are as follows:

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

##### C. Risk Management

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

(continued)

#### IV. OTHER INFORMATION (Continued)

##### **D. Change in Accounting Principles**

For fiscal year 2011, the County has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the County reclassifying fund balances of its governmental funds.

##### **E. Prior Period Adjustments**

The General Fund had \$234,465 of revenue that was earned during FY 2010 and was not accrued as a receivable in the prior year. Fund 29 should have been combined with the General Fund in accordance with generally accepted accounting principles. That fund had a fund balance of \$234,465 in FY 2010. The combination of these items increased beginning fund balance in the General Fund by \$523,102.

The General Road and Bridge Fund had \$88,421 of revenue that was earned in FY 2010 and was not accrued as a receivable in the prior year. This increased beginning fund balance by \$88,421.

The other nonmajor governmental funds had several funds included in them that were agency funds as described by generally accepted accounting principles. The County also had expenses that were for FY 2010 charged to the 2011 budget. Those expenditures should have been accrued as accounts payable in the FY 2010 financial statements. The net effect of these two items decreased the beginning fund balances by \$708,983 in the other nonmajor governmental fund group.

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

|   |              |
|---|--------------|
| Capitalized assets under the \$5,000 threshold:                       | \$( 747,154) |
| Leases shown as capital that did not meet the capital lease criteria: | 2,106,189    |
| Debt premiums and debt issuance costs not capitalized:                | 57,266       |
| Not recognizing deferred tax revenue in prior periods:                | 2,026,916    |
| Not including court fines receivables:                                | 1,891,303    |

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**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, 2011**

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</u> | <u>Unfunded<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/10                                | \$ 34,669,779                            | \$ 40,162,404  | \$ 5,492,625                       | 86.32%                  | \$ 20,684,283              | 26.55%   |
| 12/31/09                                | 32,013,828                               | 36,768,374   | 4,754,546                          | 87.07%                  | 21,271,267                 | 22.35%   |
| 12/31/08                                | 27,730,502                               | 32,166,197   | 4,435,695                          | 86.21%                  | 20,331,014                 | 21.82%   |

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

**KAUFMAN COUNTY, TEXAS**

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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

**KAUFMAN COUNTY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  | <u>Budgeted Amounts</u> |                        | <u>Actual<br/>Amounts</u> | <u>Variance with<br/>Final Budget -<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|------------------------|---------------------------|---|
|  | <u>Original</u>         | <u>Final</u>           |                           |   |
| <b>REVENUES</b>  |                         |                        |                           |   |
| Property taxes   | \$ 27,992,400           | \$ 27,992,400          | \$ 28,037,727             | \$ 45,327   |
| Mixed beverage taxes   | 90,000                  | 90,000                 | 95,752                    | 5,752   |
| License and permits  | 36,400                  | 36,400                 | 45,263                    | 8,863   |
| Fees of office   | 3,963,750               | 3,963,750              | 3,144,165                 | ( 819,585)  |
| Charges for service  | 228,450                 | 228,450                | 218,309                   | ( 10,141)   |
| Intergovernmental  | 769,124                 | 1,001,828              | 1,785,232                 | 783,404   |
| Investment income  | 25,150                  | 25,150                 | 209,027                   | 183,877   |
| Miscellaneous  | 83,100                  | 150,229                | 27,283                    | ( 122,946)  |
| Total revenues   | <u>33,188,374</u>       | <u>33,488,207</u>      | <u>33,562,758</u>         | <u>74,551</u>   |
| <b>EXPENDITURES</b>  |                         |                        |                           |   |
| Current:   |                         |                        |                           |   |
| General government   | 11,124,927              | 11,311,083             | 10,284,905                | 1,026,178   |
| Public safety  | 15,352,452              | 15,113,403             | 14,031,950                | 1,081,453   |
| Judicial   | 4,999,185               | 5,138,826              | 4,880,329                 | 258,497   |
| Community services   | 384,054                 | 404,414                | 738,517                   | ( 334,103)  |
| Infrastructure and environmental services                            | 372,955                 | 382,554                | 356,152                   | 26,402  |
| Health and human services  | 384,900                 | 384,900                | 331,785                   | 53,115  |
| Capital outlay   | 76,280                  | 61,878                 | 314,080                   | ( 252,202)  |
| Debt service:  |                         |                        |                           |   |
| Principal  | 21,448                  | 17,448                 | 82,403                    | ( 64,955)   |
| Interest and fiscal charges  | -                       | 1,416,000              | 16,432                    | 1,399,568   |
| Total expenditures   | <u>32,716,201</u>       | <u>34,230,506</u>      | <u>31,036,553</u>         | <u>3,193,953</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <u>472,173</u>          | <u>( 742,299)</u>      | <u>2,526,205</u>          | <u>3,268,504</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                                |                         |                        |                           |   |
| Proceeds from insurance  | -                       | -                      | 80,729                    | 80,729  |
| Operating transfers in   | 112,583                 | 112,583                | 68,472                    | ( 44,111)   |
| Operating transfers out  | ( 611,268)              | ( 591,268)             | ( 557,926)                | 33,342  |
| Issuance of capital lease  | -                       | -                      | 34,485                    | 34,485  |
| Total other financing sources (uses)                                 | <u>( 498,685)</u>       | <u>( 478,685)</u>      | <u>( 374,240)</u>         | <u>104,445</u>  |
| <b>NET CHANGE IN FUND BALANCES</b>                                   | <u>( 26,512)</u>        | <u>( 1,220,984)</u>    | <u>2,151,965</u>          | <u>3,372,949</u>  |
| <b>FUND BALANCES, BEGINNING</b>                                      | <u>( 1,669,923)</u>     | <u>( 1,669,923)</u>    | <u>( 1,669,923)</u>       | <u>-</u>  |
| <b>PRIOR PERIOD ADJUSTMENT</b>                                       | -                       | -                      | 523,102                   | 523,102   |
| <b>FUND BALANCES, BEGINNING, RESTATED</b>                            | <u>( 1,669,923)</u>     | <u>( 1,669,923)</u>    | <u>( 1,146,821)</u>       | <u>523,102</u>  |
| <b>FUND BALANCES, ENDING</b>   | <u>\$ ( 1,696,435)</u>  | <u>\$ ( 2,890,907)</u> | <u>\$ 1,005,144</u>       | <u>\$ 3,896,051</u>   |

# KAUFMAN COUNTY, TEXAS

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

### GENERAL ROAD AND BRIDGE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

|  | Budgeted Amounts    |                     | Actual<br>Amounts   | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|---------------------|---------------------|---------------------|---|
|  | Original            | Final               |                     |   |
| <b>REVENUES</b>  |                     |                     |                     |   |
| Property taxes   | \$ 3,032,100        | \$ 3,032,100        | \$ 2,972,401        | \$( 59,699)   |
| Fees of office   | 2,495,000           | 2,495,000           | 2,158,871           | ( 336,129)  |
| Charges for service  | 120,000             | 120,000             | 327,214             | 207,214   |
| Intergovernmental  | -                   | -                   | 79,173              | 79,173  |
| Investment income  | 22,400              | 22,400              | 15,010              | ( 7,390)  |
| Miscellaneous  | 5,100               | 5,100               | 4,445               | ( 655)  |
| Total revenues   | <u>5,674,600</u>    | <u>5,674,600</u>    | <u>5,557,114</u>    | <u>( 117,486)</u>   |
| <b>EXPENDITURES</b>  |                     |                     |                     |   |
| Current:   |                     |                     |                     |   |
| Infrastructure and environmental                                     | 6,653,803           | 6,527,803           | 5,275,588           | 1,252,215   |
| Capital outlay   | 70,000              | 89,000              | 59,891              | 29,109  |
| Debt Service   |                     |                     |                     |   |
| Principal  | 420,000             | 526,500             | 602,638             | ( 76,138)   |
| Interest and fiscal charges  | -                   | -                   | 45,661              | ( 45,661)   |
| Total expenditures   | <u>7,143,803</u>    | <u>7,143,303</u>    | <u>5,983,778</u>    | <u>1,159,525</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <u>( 1,469,203)</u> | <u>( 1,468,703)</u> | <u>( 426,664)</u>   | <u>1,042,039</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                                |                     |                     |                     |   |
| Proceeds from sale of assets   | -                   | 4,500               | 280,299             | 275,799   |
| Operating transfers in   | -                   | -                   | 36,679              | 36,679  |
| Operating transfers out  | ( 57,197)           | ( 57,197)           | ( 42,898)           | 14,299  |
| Issuance of capital lease  | -                   | -                   | 50,688              | 50,688  |
| Total other financing sources (uses)                                 | <u>( 57,197)</u>    | <u>( 52,697)</u>    | <u>324,768</u>      | <u>377,465</u>  |
| <b>NET CHANGE IN FUND BALANCES</b>                                   | <u>( 1,526,400)</u> | <u>( 1,521,400)</u> | <u>( 101,896)</u>   | <u>1,419,504</u>  |
| <b>FUND BALANCES, BEGINNING</b>                                      | 1,324,125           | 1,324,125           | 1,324,125           | -   |
| <b>PRIOR PERIOD ADJUSTMENT</b>                                       | -                   | -                   | 88,421              | 88,421  |
| <b>FUND BALANCES, BEGINNING, RESTATED</b>                            | <u>1,324,125</u>    | <u>1,324,125</u>    | <u>1,412,546</u>    | <u>88,421</u>   |
| <b>FUND BALANCES, ENDING</b>   | <u>\$( 202,275)</u> | <u>\$( 197,275)</u> | <u>\$ 1,310,650</u> | <u>\$ 1,507,925</u>                                       |

**KAUFMAN COUNTY, TEXAS**

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

**CONSTRUCTION PROJECTS FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  | Budgeted Amounts |            | Actual<br>Amounts | Variance with<br>Final Budget -<br>Positive<br>(Negative) |
|--|------------------|------------|-------------------|---|
|  | Original         | Final      |                   |   |
| <b>REVENUES</b>  | \$ -             | \$ -       | \$ -              | \$ -  |
| <b>EXPENDITURES</b>  |                  |            |                   |   |
| Capital outlay   | 934,100          | 934,100    | 6,333             | 927,767   |
| Total expenditures   | 934,100          | 934,100    | 6,333             | 927,767   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | ( 934,100)       | ( 934,100) | ( 6,333)          | 927,767   |
| <b>FUND BALANCES, BEGINNING</b>                                      | 933,973          | 933,973    | 933,973           | -   |
| <b>FUND BALANCES, ENDING</b>   | \$ ( 127)        | \$ ( 127)  | \$ 927,640        | \$ 927,767  |

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**SINGLE AUDIT SECTION**



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County, Texas as of and for the year ended September 30, 2011, which collectively comprise Kaufman County, Texas' basic financial statements and have issued our report thereon dated June 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Items 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, 2011-8, 2011-9, 2011-10 and 2011-11, to be material weaknesses.

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Commissioners' Court, management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Pattillo, Brown + Hill, L.L.P.*

June 11, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

To the Honorable County Judge  
and County Commissioners  
Kaufman County, Texas

**Compliance**

We have audited Kaufman County, Texas' compliance with the types of compliance requirements described in the State of Texas Uniform Grants Management Standards that could have a direct and material effect on each of Kaufman County, Texas' major state programs for the year ended September 30, 2011. Kaufman County, Texas' major state programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of Kaufman County, Texas' management. Our responsibility is to express an opinion on Kaufman County, Texas' compliance based on our audit.

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

In our opinion, Kaufman County, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended September 30, 2011.

## Internal Control Over Compliance

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Items 2011-2, 2011-4, 2011-6, and 2011-7, to be material weaknesses.

Kaufman County, Texas' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Kaufman County, Texas' responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Commissioners' Court, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Pattillo, Brown + Hill, L.L.P.*

June 11, 2012

**KAUFMAN COUNTY, TEXAS**  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

| State Grantor/Pass-through Grantor/<br>Program Title      | Pass-through<br>Grantor's<br>Number | Expenditures |
|---|-------------------------------------|--------------|
| <u>Commission on State Emergency Communications</u>       |                                     |              |
| Passed through the North Texas Council of Governments:    |                                     |              |
| Regional 911 Program                                      | N/A                                 | \$ 12,116    |
| Total Passed through North Texas Council of Governments   |                                     | 12,116       |
| Total Commission on State Emergency Communications        |                                     | 12,116       |
| <u>Department of State Health Services</u>                |                                     |              |
| Zoonosis  | 2011-0378863-001                    | 48,802       |
| Total Direct Programs                                     |                                     | 48,802       |
| Passed through the North Texas Council of Governments:    |                                     |              |
| Cities Readiness Initiative                               | 2010-03551                          | 50,523       |
| Cities Readiness Initiative                               | 2011-038539                         | 4,138        |
| Total Passed through North Texas Council of Governments   |                                     | 54,661       |
| Total Department of State Health Services                 |                                     | 103,463      |
| <u>Texas Office of the Attorney General</u>               |                                     |              |
| Victim Coordinator and Liaison                            | 1014323                             | 34,138       |
| Texas Victim Information and Notification Everyday (VINE) | 1121177                             | 15,564       |
| Total Texas Office of the Attorney General                |                                     | 49,702       |
| <u>Texas Commission on Environmental Quality</u>          |                                     |              |
| Texas Emissions Reduction Plan                            | 582-9-80211-0168                    | 59,900       |
| Texas Emissions Reduction Plan                            | 582-9-80211-0194                    | 19,273       |
| Air Check   | N/A                                 | 293,800      |
| Total Direct Programs                                     |                                     | 372,973      |
| Passed through the North Texas Council of Governments:    |                                     |              |
| Governmental and Commercial Waste Recycling               | 11-04-G26                           | 120,054      |
| Illegal Dumping Prevention                                | 10-04-G16                           | 20,284       |
| Total Passed through North Texas Council of Governments   |                                     | 140,338      |
| Total Texas Commission on Environmental Quality           |                                     | 513,311      |
| <u>Texas State Libraries and Archives Commission</u>      |                                     |              |
| Lone Star Libraries                                       | 442-11808                           | 5,910        |
| Total Lone Star Libraries                                 |                                     | 5,910        |
| Passed through Bill and Melinda Gates Foundation:         |                                     |              |
| Opportunity Online Broad Band Grant                       | N/A                                 | 360          |
| Total Passed through Bill and Melinda Gates Foundation    |                                     | 360          |
| Total Texas State Libraries and Archives Commission       |                                     | 360          |
| <u>Texas Task Force on Indigent Defense</u>               |                                     |              |
| Indigent Defense Formula Grant                            | 212-11-129                          | 49,404       |
| Indigent Defense Discretionary Grant                      | 212-11-129                          | 20,894       |
| Indigent Defense Equalization Grant                       | 212-11-129                          | 54,430       |
| Total Texas Task Force on Indigent Defense                |                                     | 124,728      |
| <u>Texas State Comptroller</u>                            |                                     |              |
| LEOSE   | N/A                                 | 6,230        |
| Total Texas State Comptroller                             |                                     | 6,230        |
| Total Expenditures of State Awards                        |                                     | \$ 815,820   |

# KAUFMAN COUNTY, TEXAS

## NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

SEPTEMBER 30, 2011

### 1. GENERAL

The Schedule of Expenditures of State Awards presents the activity of all applicable state awards programs of the reporting entity. The County's reporting entity is defined in Note 1 of the basic financial statements. State awards received directly from state agencies, as well as state awards passed through other government agencies, are included on the Schedule of Expenditures of State Awards.

### 2. BASIS OF ACCOUNTING

The Schedule of Expenditures of State Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note 1 of the basic financial statements.

The information in this schedule is presented in accordance with the requirements of *the State of Texas Uniform Grant Management Standards*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**KAUFMAN COUNTY, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Summary of Auditors' Results**

|  |  |
|--|--|
| Type of report on financial statements   | Unqualified  |
| Internal control over financial reporting:<br>Material weakness(es) identified?  | 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, 2011-8,<br>2011-9, 2011-10, 2011-11  |
| Significant deficiencies identified that are not<br>considered to be material weakness(es)?                              | None reported  |
| Internal control over major programs:<br>Material weakness(es) identified?   | 2011-2, 2011-4, 2011-6, 2011-7   |
| Significant deficiencies identified that are not<br>considered to be material weakness(es)?                              | None reported  |
| Noncompliance which is material to the<br>basic financial statements   | None   |
| Type of report on compliance with major<br>programs  | Unqualified  |
| Findings and questioned costs for state awards<br>as defined in the State of Texas<br>Uniform Grant Management Standards | None   |
| Dollar threshold considered between Type A<br>and Type B state programs  | \$300,000  |
| Low risk auditee statement   | The County was not classified as a low-risk auditee<br>in the context of the State of Texas<br>Uniform Grant Management Standards. |
| Major state programs   | Air Check Texas<br>Government and Commercial Waste Recycling   |

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
SEPTEMBER 30, 2011

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

**Item 2011 – 1:**

**County JP Offices**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

Management agrees that each employee needs a separate sign-on and password to authorize access to the various types of receipting and dismissal of cases with all the JP offices. Only authorized staff should be authorized to dismiss cases within each court system.

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 1: (Continued)      **County JP Offices****

County Auditor/staff has access to the JP software with a secure sign-on and password. The County Auditor can review and see the employee who has received any monies. The County Auditor has audited each JP and when there is a questionable issue, all JP offices have been cooperative in making corrections as requested.

Management agrees that all cash boxes be secured at all times to safeguard County assets. The County Auditor will create a cash management policy for all County offices receipting monies.

**Contact Person Responsible  
for Corrective Action:**

Justice of the Peace for Precincts 1, 2, 3, and 4, all employees within the JP offices, and County Auditor.

**Anticipated Completion  
Date:**

August 31, 2012

**Item 2011 – 2:**

**Purchasing Policy**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 2:** (Continued)

**Purchasing Policy**

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

Management agrees and a purchasing policy was presented by the Purchasing Agent for the County during a Commissioners' Court Special Meeting Workshop on Monday, June 4, 2012.

Purchasing policy is due to be adopted by Commissioners' Court on Monday, June 11, 2012, during the regular Commissioners' Court meeting.

**Contact Person Responsible  
for Corrective Action:**

County Purchasing Agent, Jack Sebastian

**Anticipated Completion**

**Date:**

Adopted June 11, 2012  
In service training: June-July 2012

**Item 2011 – 3:**

**Credit Card Policy**

**Condition:**

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

**Effect:**

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

**(continued)**

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SEPTEMBER 30, 2011

**Item 2011 – 3:** (Continued)

**Credit Card Policy**

**Recommendation:**

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

**Management's Response:**

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

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

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

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

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

**Contact Person Responsible  
for Corrective Action:**

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

**Anticipated Completion  
Date:**

September 30, 2012

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 4:**

**Recording of Grant Transactions**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

Revenues and expenditures are being understated on the general ledger.

**Recommendation:**

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

**Management's Response:**

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

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

**Contact Person Responsible  
for Corrective Action:**

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

**Anticipated Completion**

**Date:**

September 30, 2012, during implementation of new financial software.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011

**Item 2011 – 5:**

**Refunds of Taxes in the Tax Office**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

Management agrees with the finding. The County Treasurer is responsible for all deposits of County money and reconciles all bank accounts.

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 5:** (Continued)

**Refunds of Taxes in the Tax Office**

County Auditor receives copies of the County Treasurer report and bank statements for audit purposes on a monthly basis. Auditor's office is closely monitoring all deposits, outstanding items for the purpose of safeguarding County assets.

Any expenditure from County funds should have attached documentation explaining purpose of expenditure.

**Contact Person Responsible  
for Corrective Action:**

Refunds of Taxes – County Tax Assessor-Collector  
Disbursements – County Treasurer and County Auditor  
Creation and Closing of County bank accounts – County Treasurer

**Anticipated Completion  
Date:**

May 31, 2012 – in progress

**Item 2011 – 8:**

**County Fines Receivable**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 8:** (Continued)

**County Fines Receivable**

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

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

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

**Contact Person Responsible  
for Corrective Action:**

County Auditor

**Anticipated Completion  
Date:**

September 30, 2012

**Item 2011 – 9:**

**Unclaimed Restitution**

**Condition:**

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

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 9:** (Continued)

**Unclaimed Restitution**

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

The County should review the State guidelines for unclaimed property. They should then adopt a policy that follows the State guidelines to make sure they are in compliance with laws and regulations.

**Management's Response:**

Management agrees with the finding regarding unclaimed restitution. A new policy will be established according to the State of Texas guidelines.

**Contact Person Responsible  
for Corrective Action:**

County Treasurer  
County Auditor

**Anticipated Completion  
Date:**

September 30, 2012

**Item 2011 – 10:**

**Accounting for Employee Compensated Absences**

**Condition:**

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

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SEPTEMBER 30, 2011

**Item 2011 – 10:** (Continued)

**Accounting for Employee Compensated Absences**

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

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

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

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

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011

**Item 2011 – 10:** (Continued)      **Accounting for Employee Compensated Absences**

**Contact Person Responsible  
for Corrective Action:**

County Treasurer  
County Auditor – for purposes of internal audits

**Anticipated Completion  
Date:**

March 2013 – six-month implementation of new software

**Item 2011 – 11:**      **Internal Controls Over Payroll**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

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

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011

**Item 2011 – 11:** (Continued)

**Internal Controls Over Payroll**

**Recommendation:**

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

**Management's Response:**

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

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

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

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

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

**Contact Person Responsible  
for Corrective Action:**

County Treasurer  
County Auditor

**Anticipated Completion  
Date:**

March 2013 – Six-month implementation of new software

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SEPTEMBER 30, 2011

**Findings and Questioned Costs for State Awards**

**Item 2011 – 2:**

**Purchasing Policy**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

**Management's Response:**

Management agrees and a purchasing policy was presented by the Purchasing Agent for the County during a Commissioners' Court Special Meeting Workshop on Monday, June 4, 2012.

Purchasing policy is due to be adopted by Commissioners' Court on Monday, June 11, 2012, during the regular Commissioners' Court meeting.

**Contact Person Responsible  
for Corrective Action:**

County Purchasing Agent, Jack Sebastian

**Anticipated Completion**

**Date:**

Adopted June 11, 2012  
In service training: June-July 2012

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011

**Item 2011 – 4:**

**Recording of Grant Transactions**

**Condition:**

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

**Criteria:**

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

**Cause:**

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

**Effect:**

Revenues and expenditures are being understated on the general ledger.

**Recommendation:**

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

**Management's Response:**

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

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

**Contact Person Responsible  
for Corrective Action:**

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

**Anticipated Completion  
Date:**

September 30, 2012, during implementation of new financial software.

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SEPTEMBER 30, 2011

|                                      |   |
|--------------------------------------|---|
| <b><u>Item 2011 – 6:</u></b>         | <b>Governmental and Commercial Waste Recycling – Suspension and Debarment</b>   |
| <b><u>Condition:</u></b>             | The County did not obtain documentation of verification that vendors paid with Governmental and Commercial Waste Recycling funds are not suspended or debarred.   |
| <b><u>Criteria:</u></b>              | Uniform Grant Management Standards (UGMS) dictate that prior to doing business with a vendor using federal or state grant funds; suspension and debarment should be verified by the grantee. This process needs to be documented as well as performed.  |
| <b><u>Cause:</u></b>                 | The County has no formal process documenting that they are not spending grant funds with suspended or debarred vendors.   |
| <b><u>Effect:</u></b>                | The County is at a risk of spending grant funds with a suspended or debarred vendor.  |
| <b><u>Recommendation:</u></b>        | We recommend the County implement a policy to verify that each entity it contracts with or uses as vendors is not suspended or debarred or otherwise excluded. This policy should outline annual procedures that instruct County employees on proper federal regulations to comply with the suspension and debarment requirement. This verification should be accompanied by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. Additionally, management or representatives of management should periodically conduct independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended. |
| <b><u>Management's Response:</u></b> | Management agrees with finding that the grant needs to be monitored for compliance. Before the funds are spent, vendors need to be reviewed on the General Services Administration (GSA) to insure the vendor is in compliance with regulations and authorized to do business regarding the Solid Waste Grant Program.  |

(continued)

KAUFMAN COUNTY, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011

**Item 2011 – 6:** (Continued)      **Governmental and Commercial Waste Recycling – Suspension and Debarment**

**Contact Person Responsible for Corrective Action:**

Vendor Compliance – Solid Waste Grant Administrator  
Procurement – Purchasing Agent

**Anticipated Completion Date:**

September 30, 2012

**Item 2011 – 7:**

**AirCheck – Sub-recipient Monitoring**

**Condition:**

The County did not perform any sub-recipient monitoring of the North Central Texas Council of Governments administration of the AirCheck Program.

**Criteria:**

The County receives grant funds for the Federal Air Check Grant. The County in turn sends that money to NCTCOG to administer the program. The grant agreement states that the County is supposed to monitor the COG's administration of the AirCheck Program.

**Effect:**

The County is not certain that the AirCheck plan was administered properly by NCTCOG.

**Cause:**

The County did not do any sub-recipient monitoring of the AirCheck Program.

**Recommendation:**

We recommend the County perform the required steps to insure that NCTCOG is administering the AirCheck program in accordance with the grant agreement. This will help reduce the risk that the funds were not spent properly and that all required reports are submitted in a timely manner.

**Management's Response:**

The grant is awarded to Kaufman County and Kaufman County contracts with Northeast Central Texas Council of Governments. The grant agreement states the County will monitor the administration of the grant.

Kaufman County monitoring the reports submitted by NCTCOG will insure compliance of the grant agreement and funds.

(continued)

**KAUFMAN COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)  
SEPTEMBER 30, 2011**

**Item 2011 – 7:**

**AirCheck – Sub-recipient Monitoring**

**Contact Person Responsible  
for Corrective Action:**

County Judge – receives reports and signs acknowledgement  
County Auditor – will receive copy of report from County Judge to  
include in the audit workpapers.

**Anticipated Completion  
Date:**

June 2012

**KAUFMAN COUNTY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

None

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and the Texas Uniform Grant Management Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated September 23, 2011. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kaufman County are described in Note I to the financial statements. As described in Note IV.D to the financial statements, the County changed accounting policies related to fund balance by implementing Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of accumulated depreciation, the related useful lives of capital assets, and the allowance for uncollectible fines. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Management's estimates for the OPEB obligations were based upon actuarial studies performed by an actuarial firm. We evaluated the key factors and assumptions used to develop the estimates of the OPEB obligations in determining that it is reasonable in relation to the financial statements taken as a whole.

### ***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### ***Disagreements with Management***

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated June 11, 2012.

### ***Management Consultations with Other Independent Accountants***

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

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The findings we had regarding the 2011 audit are summarized in the Schedule of Findings and Questioned Costs.

This information is intended solely for the use of the County Judge, Commissioners and management of Kaufman County and is not intended to be and should not be used by anyone other than these specified parties.

*Pattillo, Brown + Hill, L.L.P.*

June 11, 2012