

KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

INTRODUCTORY SECTION

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**KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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**KAUFMAN COUNTY, TEXAS
ANNUAL FINANCIAL STATEMENTS
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KAUFMAN COUNTY, TEXAS
DIRECTORY OF OFFICIALS

Commissioners' Court:

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

Justices of the Peace:

| | |
|-------------|--------------------|
| Precinct #1 | Mr. Johnny Perry |
| Precinct #2 | Mr. Don Cates |
| Precinct #3 | Mr. James Williams |
| Precinct #4 | Mr. Glen Bates |

Constables:

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

86th Judicial District of the State of Texas:

| | |
|----------------|--------------------|
| District Judge | Mr. Howard Tygrett |
| County Auditor | Mr. Hal Jones |

KAUFMAN COUNTY, TEXAS

DIRECTORY OF OFFICIALS

Continued

422nd Judicial District of the State of Texas:

| | |
|----------------------------------|------------------------------------|
| District Judge | Mr. B. Michael Chitty |
| Criminal District Attorney | Mr. Ed Walton |
| Court Reporter | Ms. Patsy Berry Ms. Donna Gehl |
| District Clerk | Ms. Sandra Featherston |
| Chief Adult Probation Officer | Mr. Ben Carmona |
| Chief Juvenile Probation Officer | Ms. Angie Scalf Ms. Laura Peace |

Officials of Kaufman County:

| | |
|---------------------------------|-------------------------------------|
| County Court-at-Law Judge | Mr. Erleigh Norville |
| County Clerk | Ms. Laura Hughes |
| County Sheriff | Mr. David Byrnes |
| County Tax-Assessor Collector | Mr. Dick Murphey |
| County Treasurer | Mr. Johnny D. Countryman |
| County Veterans Service Officer | Mr. Don Stoy |
| County Health Officer | Dr. William J. Fortner |
| Indigent Health Care Officer | Ms. Vickki Gerner |
| Public Works Coordinator | Ms. Kathy Paget |
| Sanitarian | Mr. Ken Lyerla |
| Fire Marshall | Mr. Larry Ewing |
| Environmental Officers | Mr. John Dowden Mr. Walter Dykes |
| 9-1-1 Coordinator | Mr. Danny Newton |
| Purchasing Agent | Mr. Jack Sebastian |

FINANCIAL SECTION

HENRY & PETERS, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Kaufman County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Kaufman County as of September 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2007 on our consideration of Kaufman County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion & Analysis on pages 2 through 7, and the required supplementary information on pages 27 through 30, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

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

Henry & Peters, P.C.

Tyler, Texas
March 30, 2007

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, 2006. This analysis is designed to focus on current activities, resulting changes and currently known facts. Please consider the information presented here, in conjunction with the transmittal letter, financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

The assets of the County exceeded its liabilities at the close of the year by \$7,428,398 (net assets). The balance of unrestricted net assets at year-end was \$5,245,689.

- Total net assets increased by \$899,779.
- The County's total liabilities increased by \$2,060,680 during the fiscal year.
- As of the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$5,374,114, an increase of \$1,159,411 in comparison with the prior year. The total fund balance is available for spending at the government's discretion (unreserved fund balance).
- At fiscal year-end, unreserved fund balance for the General Fund was \$1,310,698 which represents 4.72% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The fiduciary fund financial statements can be found on page 14 of this report.

3) Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-26.

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 \$7,428,398 as of September 30, 2006.

The County's investment in capital assets (e.g., land, machinery and equipment and furniture and fixtures), less its related debt is 29% of net assets, a decrease of 22% of net assets in the prior year. These assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets increased \$1,784,707(net) while current and other assets increased \$1,175,752. Cash and investment balances increased primarily due to the issuance of certificate of obligation to fund the construction and remodeling of County buildings. Long-term liabilities increased from prior year by \$1,372,747, due primarily to the new certificates of obligation for such construction and remodeling. Accounts payable increased \$234,792, as a result of a general increase in costs and activities.

Kaufman County's Net Assets

| | Governmental Activities 2006 | Governmental Activities 2005 |
|--|---|---|
| Current and other assets | \$ 8,083,437 | \$ 6,907,685 |
| Capital assets | 25,639,960 | 23,855,253 |
| Total assets | 33,723,397 | 30,762,938 |
| Long-term liabilities | 24,079,053 | 22,508,820 |
| Other liabilities | 2,215,946 | 1,725,499 |
| Total liabilities | 26,294,999 | 24,234,319 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 2,182,709 | 3,324,182 |
| Unrestricted | 5,245,689 | 3,204,437 |
| Total net assets | \$ 7,428,398 | \$ 6,528,619 |

Governmental activities. Governmental activities increased the County's net assets by \$899,779. The increase from prior year is due to multiple factors primarily related to the growth in the County population and tax base. These factors include increases in property taxes coupled with increases in fines, fees and charges for services. Accordingly, County revenues increased by \$5,263,861.

Kaufman County's Changes in Net Assets

| | Governmental Activities 2006 | Governmental Activities 2005 |
|--|---|---|
| REVENUES | | |
| General revenues: | | |
| Property taxes | \$ 24,816,216 | \$ 22,879,280 |
| Fees, fines & charges for service | 9,816,131 | 7,422,039 |
| Grants & contributions | 1,774,351 | 1,234,677 |
| Investment income | 283,602 | 170,739 |
| Miscellaneous | 343,695 | 237,413 |
| Gain on disposal of capital assets | 201,104 | 27,090 |
| Total revenues | 37,235,099 | 31,971,238 |
| EXPENSES | | |
| General government | 10,315,712 | 9,195,354 |
| Public safety & corrections | 13,214,917 | 12,069,215 |
| Judicial | 3,626,841 | 4,138,397 |
| Environmental services | 6,061,182 | 6,253,852 |
| Health and human services | 1,760,123 | 869,788 |
| Interest & fiscal charges | 961,923 | 942,266 |
| Community service | 394,622 | 362,278 |
| Total expenses | 36,335,320 | 33,831,150 |
| (DECREASE) INCREASE IN NET ASSETS | 899,779 | (1,859,912) |
| NET ASSETS, BEGINNING | 6,528,619 | 8,388,531 |
| NET ASSETS, ENDING | \$ 7,428,398 | \$ 6,528,619 |

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

The General Fund is the chief operating fund of Kaufman County. At the end of the fiscal year, unreserved total fund balance of the General Fund was \$1,310,698. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved total fund balance represents 4.72% of total General Fund expenditures.

The fund balance of the General Fund decreased by \$102,683 during the fiscal year. Key factors of the decline are increases in expenditures due largely to the remodel of the Courthouse and other County buildings. Other expenditure increases pertain to the operations of the Kaufman County Jail.

The General Road and Bridge Fund had an ending fund balance of \$95,660. The reporting requirements under GASB 34 require that the General Road and Bridge Fund be reported separately from the other four road and bridges funds if it qualifies as a Major Fund. The General Road and Bridge Fund is typically not expected to carry a large fund balance, since it functions mainly as a pass-through fund to intake Road and Bridge taxes and other revenues and pass them on to the individual Road and Bridge precinct funds. Refer to Note 9 on page 24 for more details of transfers between funds.

General Fund Budgetary Highlights

Differences between the actual and the final amended budget were significant (\$1,730,182 better than budgeted). This is briefly summarized as follows:

- The growth of the County resulted in increases in fines, fees and charges for services. One of the major areas of this increase resulted from revenues for housing several inmates from other counties.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Kaufman County's investment in capital assets for its governmental activities as of fiscal year end was \$25,639,960 (net of accumulated depreciation), an increase of \$1,784,707 from prior year. The increase is largely due to construction and remodeling of County buildings and purchases of equipment for the road and bridges. This investment in capital assets includes land, buildings, improvements, machinery and equipment, roads, bridges and office furniture and equipment.

Kaufman County's Capital Assets

| | Capital Assets 2006 | Capital Assets 2005 |
|--------------------------------|------------------------------------|------------------------------------|
| Land | \$ 193,625 | \$ 150,436 |
| Construction in progress | 188,233 | - |
| Buildings, improvements, FF& E | 31,016,841 | 28,968,583 |
| Machinery and equipment | 6,843,191 | 5,671,443 |
| | 38,241,890 | 34,790,462 |
| Less: accumulated depreciation | (12,601,930) | (10,935,209) |
| Total capital assets, net | \$ 25,639,960 | \$ 23,855,253 |

The County had the following additions to fixed assets:

| | | |
|---------------------------------------|-----------|---------|
| Land | \$ 43,189 | \$ - |
| Construction in progress | 188,233 | - |
| Buildings | 115,687 | 307,805 |
| Purchase of new vehicles | 717,471 | 331,490 |
| Purchase of road and bridge equipment | 1,133,246 | 740,541 |
| Furniture and fixtures | 1,964,807 | 815,429 |

The increase in buildings in the prior year was due to the completion of the jail facility. Additional information on Kaufman County's capital assets can be found in Note 4 on page 21 of this report.

Long-term debt. At the end of the fiscal year, the County had total debt outstanding of \$24,079,053, which is an increase of \$1,570,233 from prior year.

Kaufman County's Outstanding Debt

| | 2006 | 2005 |
|--------------------------------|--------------|---------------|
| Certificates of obligation | \$21,280,000 | \$ 20,040,000 |
| Notes payable | 726,822 | 1,046,800 |
| Compensated absences | 1,003,658 | 941,984 |
| Capital leases | 1,068,573 | 355,036 |
| Estimated legal claims payable | - | 125,000 |
| Total Outstanding Debt | \$24,079,053 | \$ 22,508,820 |

The County's overall debt increased over the prior year. Additions to debt included certificates of obligation of \$2,020,000 to fund the construction and remodeling of certain County buildings.

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 \$577,253,986, which is significantly in excess of the County's outstanding debt.

Additional information on Kaufman County's debt can be found in Note 7 on pages 22 - 23.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Continued population growth will have a positive economic impact on the next fiscal year.
- Estimated revenue for fiscal year 2007 is \$31,320,188 for the General Fund and estimated expenditures are \$29,098,112. The total tax rate was increased from \$.5377 to \$.5622.

REQUESTS FOR INFORMATION

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

KAUFMAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

| | Primary Government | |
|---|------------------------------------|----------------------|
| | Governmental Activities | Total |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,402,989 | \$ 3,402,989 |
| Investments | 3,385,000 | 3,385,000 |
| Taxes receivable, net of allowance for uncollectibles | 587,866 | 587,866 |
| Other receivables, net of allowance for uncollectibles | 281,987 | 281,987 |
| Due from other governments | 66,000 | 66,000 |
| Prepaid expenses | 337,975 | 337,975 |
| Restricted cash | 21,620 | 21,620 |
| Capital assets, net: | | |
| Not subject to depreciation | 381,858 | 381,858 |
| Subject to depreciation | 25,258,102 | 25,258,102 |
| Total Assets | \$ 33,723,397 | \$ 33,723,397 |
| LIABILITIES | | |
| Accounts payable | \$ 1,162,290 | \$ 1,162,290 |
| Accrued liabilities | 543,656 | 543,656 |
| Tax Anticipation Note | 510,000 | 510,000 |
| Long-term liabilities: | | |
| Portion payable within one year: | | |
| Compensated absences payable | 301,097 | 301,097 |
| Capital leases | 542,846 | 542,846 |
| Notes payable | 162,499 | 162,499 |
| Certificates of obligation payable | 815,000 | 815,000 |
| Portion payable after one year: | | |
| Compensated absences payable | 702,561 | 702,561 |
| Capital leases | 525,727 | 525,727 |
| Notes payable | 564,323 | 564,323 |
| Certificates of obligation payable | 20,465,000 | 20,465,000 |
| Total Liabilities | \$ 26,294,999 | \$ 26,294,999 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ 2,182,709 | \$ 2,182,709 |
| Unrestricted | 5,245,689 | 5,245,689 |
| Total Net Assets | \$ 7,428,398 | \$ 7,428,398 |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net Expense and Changes in Net Assets</u> | |
|------------------------------------|----------------------|--|---|---|--|-------------------------------------|
| | | <u>Fees, Fines, and Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Primary Government Total</u> |
| Primary Government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 10,315,712 | \$ 2,537,910 | \$ - | \$ 478,425 | \$ (7,299,377) | \$ (7,299,377) |
| Public safety and corrections | 13,214,917 | 1,896,482 | 18,187 | 676,114 | (10,624,134) | (10,624,134) |
| Judicial | 3,626,841 | 2,640,982 | 96,151 | - | (889,708) | (889,708) |
| Community services | 394,622 | 68,265 | 32,816 | - | (293,541) | (293,541) |
| Environmental services | 6,061,182 | 2,672,492 | 6,250 | - | (3,382,440) | (3,382,440) |
| Health and human services | 1,760,123 | - | 466,408 | - | (1,293,715) | (1,293,715) |
| Interest and fiscal charges | 961,923 | - | - | - | (961,923) | (961,923) |
| Total governmental activities | <u>36,335,320</u> | <u>9,816,131</u> | <u>619,812</u> | <u>1,154,539</u> | <u>(24,744,838)</u> | <u>(24,744,838)</u> |
| Total Primary Government | <u>\$ 36,335,320</u> | <u>\$ 9,816,131</u> | <u>\$ 619,812</u> | <u>\$ 1,154,539</u> | <u>\$ (24,744,838)</u> | <u>\$ (24,744,838)</u> |
| General Revenues: | | | | | | |
| Property taxes | | | | | \$ 24,816,216 | \$ 24,816,216 |
| Investment income | | | | | 283,602 | 283,602 |
| Gain on disposal of capital assets | | | | | 201,104 | 201,104 |
| Miscellaneous | | | | | 343,695 | 343,695 |
| Total general revenues | | | | | <u>25,644,617</u> | <u>25,644,617</u> |
| Change in net assets | | | | | 899,779 | 899,779 |
| Net assets, beginning of year | | | | | 6,528,619 | 6,528,619 |
| Net assets, end of year | | | | | <u>\$ 7,428,398</u> | <u>\$ 7,428,398</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

| | General | General Road & Bridge | Construction Projects | Construction Interest & Sinking | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------|---------------------|--------------------------|--------------------------|---------------------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 1,793,840 | \$ 58,809 | \$ 237,657 | \$ 44,522 | \$ 1,289,781 | \$ 3,424,609 |
| Investments | 560,000 | - | 1,500,000 | 750,000 | 575,000 | 3,385,000 |
| Receivables: | | | | | | |
| Taxes | 1,652,894 | 258,757 | - | - | - | 1,911,651 |
| Accounts receivable | 281,987 | - | - | - | - | 281,987 |
| Due from others | 66,000 | - | - | - | - | 66,000 |
| Total Assets | <u>\$ 4,354,721</u> | <u>\$ 317,566</u> | <u>\$ 1,737,657</u> | <u>\$ 794,522</u> | <u>\$ 1,864,781</u> | <u>\$ 9,069,247</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 699,401 | \$ - | \$ - | \$ - | \$ 336,436 | \$ 1,035,837 |
| Accrued liabilities | 450,888 | - | - | - | 92,768 | 543,656 |
| Deferred revenues | 1,383,734 | 221,906 | - | - | - | 1,605,640 |
| Tax Anticipation Note | 510,000 | - | - | - | - | 510,000 |
| Total Liabilities | <u>3,044,023</u> | <u>221,906</u> | <u>-</u> | <u>-</u> | <u>429,204</u> | <u>3,695,133</u> |
| Fund Balances: | | | | | | |
| Unreserved reported in debt service | - | - | - | 794,522 | - | 794,522 |
| Unreserved | 1,310,698 | 95,660 | 1,737,657 | - | 1,435,577 | 4,579,592 |
| Total Fund Balances | <u>1,310,698</u> | <u>95,660</u> | <u>1,737,657</u> | <u>794,522</u> | <u>1,435,577</u> | <u>5,374,114</u> |
| Total Liabilities and Fund Balances | <u>\$ 4,354,721</u> | <u>\$ 317,566</u> | <u>\$ 1,737,657</u> | <u>\$ 794,522</u> | <u>\$ 1,864,781</u> | <u>\$ 9,069,247</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

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

| | | |
|--|---------------------|-----------------------------------|
| Total Fund Balance - Governmental Funds (page 10) | | \$ 5,374,114 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | |
| Governmental capital assets | \$38,241,890 | |
| Less: Accumulated depreciation | <u>(12,601,930)</u> | 25,639,960 |
| 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 | | 281,854 |
| Long-term liabilities, including certificates of obligation payable and compensated absences, are not due and payable in the current year and accordingly are not reported in the governmental funds | | (23,741,078) |
| Interest payable used in the county's governmental activities are not payable from current resources and therefore are not reported in the governmental funds. | | <u>(126,453)</u> |
| Net Assets of Governmental Activities (page 8) | | <u><u>\$ 7,428,398</u></u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

| | General | General Road & Bridge | Construction Projects | Construction Interest & Sinking | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------|--------------------------|---------------------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | | |
| Taxes | \$ 19,951,289 | \$ 2,999,783 | \$ - | \$ 1,716,494 | \$ - | \$ 24,667,566 |
| Fees, fines and charges for services | 5,716,815 | 2,449,104 | - | - | 824,268 | 8,990,187 |
| Intergovernmental | 1,290,866 | - | - | - | 621,271 | 1,912,137 |
| County matching funds | - | - | - | - | 5,916 | 5,916 |
| Miscellaneous | 1,131,949 | 21,141 | 882 | 47,902 | 334,927 | 1,536,801 |
| Total Revenues | <u>28,090,919</u> | <u>5,470,028</u> | <u>882</u> | <u>1,764,396</u> | <u>1,786,382</u> | <u>37,112,607</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 8,637,301 | - | - | - | 325,308 | 8,962,609 |
| Public safety and corrections | 11,214,299 | - | - | 2,000 | 256,509 | 11,472,808 |
| Judicial | 3,377,487 | - | - | - | 458,358 | 3,835,845 |
| Community service | - | - | - | - | 154,255 | 154,255 |
| Environmental service | 923,845 | 69,139 | - | - | 5,547,640 | 6,540,624 |
| Health and human service | 1,125,224 | - | - | - | 759,780 | 1,885,004 |
| Capital outlay | 2,267,235 | - | 263,225 | - | 632,274 | 3,162,734 |
| Debt service: | | | | | | |
| Principal | 187,394 | - | - | 780,000 | - | 967,394 |
| Interest and fiscal charges | 43,817 | - | - | 911,763 | 6,343 | 961,923 |
| Bond issue costs | 10,000 | - | 20,000 | - | - | 30,000 |
| Total Expenditures | <u>27,786,602</u> | <u>69,139</u> | <u>283,225</u> | <u>1,693,763</u> | <u>8,140,467</u> | <u>37,973,196</u> |
| Excess (deficiency) of revenues over expenditures | <u>304,317</u> | <u>5,400,889</u> | <u>(282,343)</u> | <u>70,633</u> | <u>(6,354,085)</u> | <u>(860,589)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sale of bond | - | - | 2,020,000 | - | - | 2,020,000 |
| Operating transfers in | - | - | - | - | 5,746,307 | 5,746,307 |
| Operating transfers out | (407,000) | (5,339,307) | - | - | - | (5,746,307) |
| Total other financing sources (uses) | <u>(407,000)</u> | <u>(5,339,307)</u> | <u>2,020,000</u> | <u>-</u> | <u>5,746,307</u> | <u>2,020,000</u> |
| Net change in fund balance | <u>(102,683)</u> | <u>61,582</u> | <u>1,737,657</u> | <u>70,633</u> | <u>(607,778)</u> | <u>1,159,411</u> |
| Fund balance at beginning of year | <u>1,413,381</u> | <u>34,078</u> | <u>-</u> | <u>723,889</u> | <u>2,043,355</u> | <u>4,214,703</u> |
| Fund balance at end of year | <u>\$ 1,310,698</u> | <u>\$ 95,660</u> | <u>\$ 1,737,657</u> | <u>\$ 794,522</u> | <u>\$ 1,435,577</u> | <u>\$ 5,374,114</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS

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

SEPTEMBER 30, 2006

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

| | | |
|--|--------------------|--------------------------|
| Net change in fund balance - total governmental funds (page 12) | | \$ 1,159,411 |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives: | | |
| Expenditures for capital assets | \$ 2,963,779 | |
| Less: Current year depreciation | <u>(2,003,438)</u> | 960,341 |
| Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year. | | (61,674) |
| The issuance of long-term debt (e.g., certificates of obligation, leases) provides current financial resources to governmental funds, while repayment of the principle of long-term debt is an expenditure in the governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | (1,129,171) |
| 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. | | (14,047) |
| Expenses reported in the statement of activities as a result of the full accrual method of accounting are not reported as expenditures in the governmental funds, which are reported under the modified accrual method. | | <u>(15,081)</u> |
| Change in net assets of governmental activities (page 9) | | <u><u>\$ 899,779</u></u> |

KAUFMAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
SEPTEMBER 30, 2006

| | <u>Tax Assessor</u> | <u>Sheriff</u> | <u>District Clerk</u> | <u>County Clerk</u> | <u>District Attorney</u> | <u>Insurance</u> | <u>Employee Savings</u> | <u>Total</u> |
|----------------------|-------------------------|------------------|---------------------------|-------------------------|------------------------------|------------------|-----------------------------|--------------------|
| ASSETS | | | | | | | | |
| Cash | \$ 844,324 | \$266,048 | \$ 787,022 | \$190,712 | \$ 131,815 | \$ 3,740 | \$ 130,712 | \$2,354,373 |
| Investments | - | - | 1,771,820 | 519,094 | - | - | - | 2,290,914 |
| Total Assets | <u>\$ 844,324</u> | <u>\$266,048</u> | <u>\$2,558,842</u> | <u>\$709,806</u> | <u>\$ 131,815</u> | <u>\$ 3,740</u> | <u>\$ 130,712</u> | <u>\$4,645,287</u> |
| LIABILITIES | | | | | | | | |
| Due to other parties | \$ 844,324 | \$266,048 | \$2,558,842 | \$709,806 | \$ 131,815 | \$ 3,740 | \$ 130,712 | \$4,645,287 |
| Total Liabilities | <u>\$ 844,324</u> | <u>\$266,048</u> | <u>\$2,558,842</u> | <u>\$709,806</u> | <u>\$ 131,815</u> | <u>\$ 3,740</u> | <u>\$ 130,712</u> | <u>\$4,645,287</u> |

See accompanying notes to financial statements.

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

In determining the financial reporting entity, Kaufman County, Texas complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*," and includes all component units of which the County appointed a voting majority of the units' board and the County is either able to impose its will on the unit, or a financial benefit-relationship or burden-relationship exists.

B. Basis of Presentation

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

GOVERNMENT-WIDE STATEMENTS

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

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

FUND FINANCIAL STATEMENTS

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Basis of Presentation – Continued

Major governmental funds reported by the County are:

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

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

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

Construction Interest and Sinking Funds – The Construction Interest and Sinking Fund accounts for resources utilized to service debt related to construction projects. This fund's major source of revenue is tax revenue and its resources are utilized for debt service payments.

Fiduciary funds reported by the County are:

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

C. Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

D. Budgetary Accounting

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

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

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse September 30, and encumbrances at that time are to be either canceled or appropriately provided for in subsequent year's budget. Encumbrances outstanding at year end that are provided for in the subsequent year's budget are reported as designations of net assets since they do not constitute expenditures or liabilities.

F. Cash and Investments

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

All investments of the County are made pursuant to the Texas Public Funds Investments Act. Investments at September 30, 2006 are stated at fair market value in accordance with provisions of GASB statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and consist of obligations that are fully insured by the State of Texas.

G. Prepaid Items

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

H. Capital Assets

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

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

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

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

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

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

I. Compensated Absences

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

The County's permanent, full-time employees accrue sick leave at the rate of 8 hours per month to a maximum of 720 hours (90 days). Sick leave is paid to current employees if the employees are absent from work due to illness, injury or other situations requiring medical attention. An employee who leaves the County's employment for any reason other than retirement receives no compensation for accrued sick leave. Retiring employees who have at least 20 years of service and who have accrued the maximum allowable sick leave (not to exceed 30 days) are entitled to payment for their accrued sick leave, and accrued sick leave for these employees is accrued for in the government-wide financial statements.

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

J. Long-Term Obligations

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

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Property Taxes

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

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

The combined tax rate for the year ended September 30, 2006 was \$0.5377 per \$100 and was allocated as follows:

| | |
|---------------------|-----------------|
| General Fund | \$ 0.4350 |
| Debt Service Fund | 0.0377 |
| Road & Bridge Funds | <u>0.0650</u> |
| Total | <u>\$0.5377</u> |

L. Estimates

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

M. Implementation of New Standards

In the current year, the County implemented the following new standards:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* ("GASB 42"), established standards that define capital asset impairment and specifies how various types of impairment losses will be measured, reported and disclosed. It also clarifies and establishes reporting and disclosure of all insurance recoveries.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB 34* ("GASB 46"), clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. GASB 46 states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if legal enforceability is reevaluated. GASB 46 also requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

GASB Statement No. 47, *Accounting for Termination Benefits* ("GASB 47"), establishes accounting standards for both voluntary and involuntary termination benefits.

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

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

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 2. CASH AND INVESTMENTS

The cash and investment policies of the County are governed by State statutes and their investment policy, which is based on 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 depositories must fully collateralize all deposits in excess of FDIC insurance 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.

During the year ended September 30, 2006, all of the County's investments were invested with the State of Texas Local Government Investment Pool (TexPool), which is a public funds investment pool created by the Treasurer of the State of Texas. TexPool acts as custodian of investments purchased with local investment funds. Texpool investments are stated at amortized cost, which in most cases approximates the market value of the shares. The fair value of these investments at September 30, 2006 was as follows:

| | |
|---------|-------------------|
| | <u>Fair Value</u> |
| Texpool | \$ 3,385,000 |

NOTE 3. RECEIVABLES AND ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Receivables of the County consist of property taxes receivable, fines and fees receivable, and beverage tax receivable. The County receives 10.86% of the beverage tax issued on mixed beverage and private club registrations. Beverage tax revenue is a small portion of the revenues for the county. Property taxes are the largest revenue producer for the County and are described above in the Summary of Significant Accounting Policies. The following is a summary of the receivables for the County's individual funds at September 30, 2006, per the government-wide statements, including the allowance for uncollectible accounts:

| | <u>General</u> | <u>General Road & Bridge</u> | <u>Total</u> |
|------------------------------|-------------------|--------------------------------------|-------------------|
| Property taxes receivable | \$ 1,641,286 | \$ 258,757 | \$ 1,900,043 |
| Beverage taxes receivable | 11,608 | - | 11,608 |
| Fines and fees receivable | 281,987 | - | 281,987 |
| Allowance for uncollectibles | (1,138,145) | (185,640) | (1,323,785) |
| Net accounts receivable | <u>\$ 796,736</u> | <u>\$ 73,117</u> | <u>\$ 869,853</u> |

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4. CAPITAL ASSETS

All fixed assets are valued at cost. Capital asset activity for the year ended September 30, 2006 is as follows:

| | Balance 9/30/05 | Additions | Disposals | Balance 9/30/06 |
|----------------------------------|--------------------|--------------|--------------|--------------------|
| Governmental activities: | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 150,436 | \$ 43,189 | \$ - | \$ 193,625 |
| Construction in progress | - | 188,233 | - | 188,233 |
| Total non-depreciable assets | 150,436 | 231,422 | - | 381,858 |
| Depreciable assets: | | | | |
| Buildings | 27,496,657 | 115,687 | - | 27,612,344 |
| Machinery | 3,653,147 | 1,133,246 | (616,159) | 4,170,234 |
| Vehicles | 2,018,296 | 717,471 | (62,810) | 2,672,957 |
| Furniture, Fixtures, & Equipment | 1,471,926 | 1,964,807 | (32,236) | 3,404,497 |
| Total depreciable assets | 34,640,026 | 3,931,211 | (711,205) | 37,860,032 |
| Less: Accumulated depreciation | 10,935,209 | 2,003,439 | (336,717) | 12,601,930 |
| Total depreciable assets, net | 23,704,817 | 1,927,772 | (374,487) | 25,258,102 |
| Total capital assets | \$23,855,253 | \$ 2,159,194 | \$ (374,487) | \$25,639,960 |

Depreciation expense for the year totaled \$2,003,439 and was charged to functions of the government-wide statement of activities as follows:

| | |
|-------------------------------|---------------------|
| Governmental Activities: | |
| General Government | \$ 331,536 |
| Judicial | 16,525 |
| Public Safety and Corrections | 1,309,886 |
| Environmental Services | 339,130 |
| Community Services | 6,362 |
| Total depreciation expense | <u>\$ 2,003,439</u> |

GASB 34 requires government entities to retroactively capitalize infrastructure assets acquired or donated since 1980 and to capitalize infrastructure constructed or acquired subsequent to the implementation of the new reporting model, which Kaufman County implemented for the year ending September 30, 2003. However, GASB 34 allows government entities an additional 4 years to capture all of their old infrastructure. Therefore, Kaufman County has elected not to retroactively report their infrastructure for the year ending September 30, 2006.

NOTE 5. SHORT-TERM DEBT - TAX ANTICIPATION NOTES

The County issues tax anticipation notes in advance of property tax collections to meet short-term cash requirements. Short-term debt activity for the year ended September 30, 2006 was as follows:

| | Tax Anticipation Notes |
|-----------------------------|------------------------------|
| Balance, October 1, 2005 | \$ - |
| Increases | 510,000 |
| Decreases | - |
| Balance, September 30, 2006 | <u>\$ 510,000</u> |
| Amounts Due Within One Year | \$ 510,000 |

(Continued)

KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 5. SHORT-TERM DEBT - TAX ANTICIPATION NOTES - CONTINUED

Tax Anticipation Note:

| | |
|---|-----------|
| \$510,000 Texas Tax Notes, Series 2006A, dated August 15, 2006, interest and principal payable on February 15, 2007; interest rate of 5.925% | \$510,000 |
|---|-----------|

NOTE 6. LEASE OBLIGATIONS

The County is a party in several lease agreements for equipment and vehicles. The terms of the agreements provide an option to purchase the equipment during or at the end of the lease term. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases." These leases, which totaled \$1,056,661, with related debt of \$1,068,573 at September 30, 2006, are recorded in the government-wide financial statements.

The following is a schedule of the future minimum lease payments under the capitalized leases together with the present value of the net minimum lease payments at September 30, 2006:

| Year Ended September 30, | | |
|---|----|--------------|
| 2007 | \$ | 576,700 |
| 2008 | | 310,527 |
| 2009 | | 153,231 |
| 2010 | | 38,591 |
| 2011 | | 50,688 |
| Total minimum lease payments | | 1,129,737 |
| Less: amount representing interest | | (61,164) |
| Present value of net minimum lease payments | | \$ 1,068,573 |

NOTE 7. LONG-TERM DEBT

During the year ended September 30, 2006, the following changes occurred in long-term debt:

| | Certificate of Obligation | Compensated Absences | Capital Leases | Reserve for Legal Claims | Notes Payable |
|-----------------------------|---------------------------------|-------------------------|-------------------|--------------------------------|------------------|
| Balance, October 1, 2005 | \$ 20,040,000 | \$ 941,984 | \$ 355,036 | \$ 125,000 | \$ 1,046,800 |
| Increases | 2,020,000 | 61,674 | 713,537 | - | - |
| Decreases | (780,000) | - | - | (125,000) | (319,978) |
| Balance, September 30, 2006 | \$ 21,280,000 | \$ 1,003,658 | \$ 1,068,573 | \$ - | \$ 726,822 |
| Amounts Due Within One Year | \$ 815,000 | \$ 301,097 | \$ 542,846 | \$ - | \$ 162,499 |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 7. LONG-TERM DEBT – CONTINUED

Certificates of Obligation:

| | |
|---|---------------------|
| \$22,000,000 Certificates of Obligation, Series 2002, dated June 15, 2002, annual maturities ranging from \$710,000 to \$1,725,000 through February 15, 2012; interest varies from 4.0% to 5.0% | \$19,260,000 |
| \$2,020,000 Texas Tax Note, Series 2006B, dated August 15, 2006, annual maturities ranging from \$300,000 to \$375,000; interest payable semi-annually interest rate of 4.22% | <u>2,020,000</u> |
| Total | <u>\$21,280,000</u> |

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

The annual requirements to amortize the Certificates of Obligation outstanding at September 30, 2006, including interest payable of \$8,802,893 are as follows:

| Year Ended September 30, | Certificate of Obligation |
|-----------------------------|---------------------------------|
| 2007 | 1,780,107 |
| 2008 | 2,080,377 |
| 2009 | 2,087,400 |
| 2010 | 2,097,091 |
| 2011 | 2,103,117 |
| Thereafter | 19,934,803 |
| Total | \$ 30,082,895 |

NOTE 8. CONTINGENT LIABILITIES

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

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

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 9. INTERFUND ACTIVITY

Interfund transfers for the fiscal year ending September 30, 2006 are summarized below:

| <u>Operating Transfer From</u> | <u>Amount</u> | <u>Operating Transfer To</u> | <u>Explanation</u> |
|--------------------------------|----------------------------|------------------------------|-------------------------|
| General | \$ 145,000 | Kaufman Co. Library | Supplement fund sources |
| General | 5,000 | Lake Dam Maintenance | Supplement fund sources |
| General | 26,000 | Solid Waste Conv. Station | Supplement fund sources |
| General | 230,000 | Indigent Health | Supplement fund sources |
| General | 1,000 | General Right of Way | Supplement fund sources |
| General Road & Bridge | 1,214,741 | Road & Bridge #1 | Supplement fund sources |
| General Road & Bridge | 1,196,221 | Road & Bridge #2 | Supplement fund sources |
| General Road & Bridge | 1,196,275 | Road & Bridge #3 | Supplement fund sources |
| General Road & Bridge | 1,732,070 | Road & Bridge #4 | Supplement fund sources |
| Total Transfers | <u>\$ 5,746,307</u> | | |

NOTE 10. PENSION PLAN

Plan Description

Kaufman County provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 553 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

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

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

Funding Policy

The employer has elected the annually determined contribution rate (variable-rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS ACT, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 6.75% for the months of the accounting year in 2006, and 7.05% for the months of the accounting year in 2005.

The deposit rate payable by the employee members for calendar year 2006 is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 10. PENSION PLAN – CONTINUED

Annual Pension Cost

For the employer's accounting year ending September 30, 2006, the annual pension cost for the TCDRS plan for its employees was \$927,196, and the actual contributions were \$977,696.

ACTUARIAL VALUATION INFORMATION

| | | | |
|--------------------------------|--|--|--|
| Actual valuation date | 12/31/2003 | 12/31/2004 | 12/31/2005 |
| Actuarial cost method | Entry age | Entry age | Entry age |
| Amortization method | Level percentage of payroll, open | Level percentage of payroll, open | Level percentage of payroll, open |
| Amortization period | 20 | 20 | 20 |
| Asset valuation method | Long-term appreciation with adjustment | Long-term appreciation with adjustment | Long-term appreciation with adjustment |
| Actuarial Assumptions: | | | |
| Investment return (1) | 8.00% | 8.00% | 8.00% |
| Projected salary increases (1) | 5.50% | 5.50% | 5.30% |
| Inflation | 3.50% | 3.50% | 3.50% |
| Cost-of-living adjustments | 0.00% | 0.00% | 0.00% |

(1) Includes inflation at the stated rate

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2003 and December 31, 2004, the basis of determining the contribution rates for calendar years 2005 and 2006. The December 31, 2005 actuarial valuation is the most recent valuation.

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

| <u>Accounting Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-----------------------------------|--|--|---------------------------------------|
| September 30, 2004 | \$ 635,581 | 100% | \$ - |
| September 30, 2005 | \$ 894,543 | 100% | \$ - |
| September 30, 2006 | \$ 927,196 | 100% | \$ - |

(Continued)

**KAUFMAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006**

NOTE 10. PENSION PLAN – CONTINUED

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (1) (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|--|------------------------------------|--------------------------|---|---|
| 12/31/2003 | \$ 16,711,335 | \$ 17,756,923 | \$ 1,045,588 | 94.11% | \$ 8,612,203 | 12.14% |
| 12/31/2004 | \$ 17,955,369 | \$ 19,506,129 | \$ 1,550,760 | 92.05% | \$ 11,770,311 | 13.18% |
| 12/31/2005 | \$ 19,365,639 | \$ 20,867,853 | \$ 1,502,214 | 92.80% | \$ 13,736,238 | 10.94% |

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

NOTE 11. RESTRICTED ASSETS

The restricted cash balance of \$21,620 in the government-wide financial statements is restricted for levee construction and repair.

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|-----------------------|-----------------------|---------------------|---|
| REVENUES | | | | |
| Taxes | \$ 20,631,169 | \$ 20,631,169 | \$ 19,951,289 | \$ (679,880) |
| Fees, fines and charges for services | 4,390,750 | 4,394,800 | 5,716,815 | 1,322,015 |
| Intergovernmental | 198,250 | 198,250 | 1,290,866 | 1,092,616 |
| Miscellaneous | 467,563 | 467,118 | 1,131,949 | 664,831 |
| Total Revenues | <u>25,687,732</u> | <u>25,691,337</u> | <u>28,090,919</u> | <u>2,399,582</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General administration | 6,726,611 | 6,806,434 | 6,420,594 | 385,840 |
| Judicial | 1,747,645 | 1,793,810 | 2,135,195 | (341,385) |
| Legal | 1,744,019 | 1,338,686 | 1,242,292 | 96,394 |
| Elections | 265,750 | 265,750 | 262,306 | 3,444 |
| Financial administration | 889,386 | 896,308 | 1,726,713 | (830,405) |
| Public facilities | 435,463 | 481,348 | 492,106 | (10,758) |
| Public safety | 11,861,552 | 12,202,835 | 11,214,299 | 988,536 |
| Environmental protection | 246,233 | 246,233 | 237,167 | 9,066 |
| Health and welfare | 456,913 | 1,109,468 | 1,125,224 | (15,756) |
| Conservation | 200,603 | 200,603 | 194,572 | 6,031 |
| Debt Service: | | | | |
| Principal | 13,000 | 14,817 | 187,394 | (172,577) |
| Interest and fiscal charges | - | - | 43,817 | (43,817) |
| Bond issue costs | - | - | 10,000 | (10,000) |
| Capital outlay | 1,318,000 | 1,760,910 | 2,494,923 | (734,013) |
| Total Expenditures | <u>25,905,175</u> | <u>27,117,202</u> | <u>27,786,602</u> | <u>(669,400)</u> |
| Deficiency of Revenues Over Expenditures | (217,443) | (1,425,865) | 304,317 | 1,730,182 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers out | (1,834,494) | (1,751,078) | (407,000) | 1,344,078 |
| Total Other Financing Uses | <u>(1,834,494)</u> | <u>(1,751,078)</u> | <u>(407,000)</u> | <u>1,344,078</u> |
| Deficiency of revenues over other sources and expenditures | <u>\$ (2,051,937)</u> | <u>\$ (3,176,943)</u> | (102,683) | <u>\$ 3,074,260</u> |
| Fund balance at beginning of year | | | <u>1,413,381</u> | |
| Fund balance at end of year | | | <u>\$ 1,310,698</u> | |

KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| REVENUES | | | | |
| Taxes | \$ 3,278,690 | \$ 3,278,690 | \$ 2,999,783 | \$ (278,907) |
| Fees, fines and charges for services | 2,778,000 | 2,778,000 | 2,449,104 | (328,896) |
| Miscellaneous | 2,000 | 2,000 | 21,141 | 19,141 |
| Total Revenues | 6,058,690 | 6,058,690 | 5,470,028 | (588,662) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Roads and bridges | 155,836 | 155,836 | 69,139 | 86,697 |
| Total Expenditures | 155,836 | 155,836 | 69,139 | 86,697 |
| Excess of Revenues Over Expenditures | 5,902,854 | 5,902,854 | 5,400,889 | (501,965) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers out | (5,902,854) | (5,902,854) | (5,339,307) | 563,547 |
| Total Other Financing Uses | (5,902,854) | (5,902,854) | (5,339,307) | 563,547 |
| Excess of revenues over other financing sources and expenditures | \$ - | \$ - | 61,582 | \$ 61,582 |
| Fund balance at beginning of year | | | 34,078 | |
| Fund balance at end of year | | | \$ 95,660 | |

KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CONSTRUCTION PROJECTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------|---|
| REVENUES | | | | |
| Miscellaneous | \$ - | \$ - | \$ 882 | \$ 882 |
| Total Revenues | - | - | 882 | 882 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Capital Outlay | - | 263,974 | 263,225 | 749 |
| Debt Service: | | | | |
| Bond issue costs | - | - | 20,000 | (20,000) |
| Total Expenditures | - | 263,974 | 283,225 | (19,251) |
| Excess of Revenues Over Expenditures | - | (263,974) | (282,343) | (18,369) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Proceeds from sale of bond | - | - | 2,020,000 | 2,020,000 |
| Total Other Financing Uses | - | - | 2,020,000 | 2,020,000 |
| Excess of revenues over other financing sources and expenditures | \$ - | \$ (263,974) | 1,737,657 | \$ 2,001,631 |
| Fund balance at beginning of year | | | - | |
| Fund balance at end of year | | | \$ 1,737,657 | |

KAUFMAN COUNTY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
CONSTRUCTION INTEREST AND SINKING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|-------------------|---|
| REVENUES | | | | |
| Taxes | \$ 1,662,830 | \$ 1,660,830 | \$ 1,716,494 | \$ 55,664 |
| Miscellaneous | 25,000 | 25,000 | 47,902 | 22,902 |
| Total Revenues | <u>1,687,830</u> | <u>1,685,830</u> | <u>1,764,396</u> | <u>78,566</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public Safety | 10,000 | 8,000 | 2,000 | 6,000 |
| Debt service: | | | | |
| Principal | 780,000 | 780,000 | 780,000 | - |
| Interest & fiscal charges | 911,763 | 911,763 | 911,763 | - |
| Total Expenditures | <u>1,701,763</u> | <u>1,699,763</u> | <u>1,693,763</u> | <u>6,000</u> |
| Excess of Revenues Over Expenditures | (13,933) | (13,933) | 70,633 | 84,566 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers out | - | - | - | - |
| Total Other Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues over other financing sources and expenditures | <u>\$ (13,933)</u> | <u>\$ (13,933)</u> | 70,633 | <u>\$ 84,566</u> |
| Fund balance at beginning of year | | | <u>723,889</u> | |
| Fund balance at end of year | | | <u>\$ 794,522</u> | |

SINGLE AUDIT SECTION

**KAUFMAN COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

| <u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u> | <u>FEDERAL CFDA NUMBER</u> | <u>PASS- THROUGH GRANTORS NUMBER</u> | <u>FEDERAL EXPENDITURES</u> |
|--|------------------------------------|--|---------------------------------|
| <u>U.S. ELECTIONS ASSISTANCE COMMISSION</u> | | | |
| Passed Through Texas Secretary of State: | | | |
| General HAVA Compliance | 90.401 | -- | \$ 369,346 |
| Voting System Accessibility | 90.401 | -- | <u>99,750</u> |
| TOTAL U. S. ELECTIONS ASSISTANCE COMMISSION | | | <u>469,096</u> |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | |
| Passed Through Texas Engineering Extension Service: | | | |
| 2003 Urban Area Security Initiative | 97.008 | 2003-EU-T3-0043 | 211,304 |
| Passed Through Governor's Division of Emergency Management: | | | |
| 2004 Urban Area Security Initiative | 97.008 | 2004-TU-T4-4013 | 243,836 |
| 2005 Urban Area Security Initiative | 97.008 | 2005-GE-T5-4025 | <u>14,422</u> |
| Total Urban Area Security Initiative | | | 469,562 |
| Passed Through Governor's Division of Emergency Management: | | | |
| Homeland Security Grant | 97.073 | 2004-GE-T4-4015 | <u>229,000</u> |
| TOTAL U. S. DEPARTMENT OF HOMELAND SECURITY | | | <u>698,562</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 1,167,658</u> |

KAUFMAN COUNTY, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006

NOTE A – BASIS OF ACCOUNTING

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

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Commissioners' Court of Kaufman County
Kaufman, Texas

We have audited the basic financial statements of Kaufman County, Texas as of and for the year ended September 30, 2006, and have issued our report thereon dated March 30, 2007. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kaufman County, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Kaufman County, Texas in a separate letter dated March 30, 2007.

Compliance and Other Matters

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

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

Henry E. Peters, P.C.

Tyler, Texas
March 30, 2007

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Commissioners' Court of Kaufman County
Kaufman, Texas

Compliance

We have audited the compliance of Kaufman County, Texas with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Kaufman County, Texas' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Kaufman County, Texas' management. Our responsibility is to express an opinion on Kaufman County, Texas' compliance based on our audit.

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

In our opinion, Kaufman County, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Kaufman County, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kaufman County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Henry E. Peters, P.C.

Tyler, Texas
March 30, 2007

**KAUFMAN COUNTY, TEXAS
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

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

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

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------|---|
| 90.401 | General HAVA Compliance |
| 90.401 | Voting System Accessibility |
| 97.008 | Urban Area Security Initiative |

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement Findings

No matters requiring reporting under *Government Auditing Standards* were noted.

Section III – Federal Award Findings and Questioned Costs

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

**KAUFMAN COUNTY, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2006**

There were no prior year audit findings.

UNAUDITED STATISTICAL DATA

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

GENERAL

| <u>Tax Roll Year</u> | <u>Budget Year</u> | <u>Gross County Valuation</u> | <u>Net Taxable Valuation (1)</u> |
|--------------------------|------------------------|---------------------------------------|--|
| 2005 | 2006 | \$ 6,188,986,520 | \$ 4,533,989,636 |
| 2004 | 2005 | 5,302,335,538 | 3,994,187,374 |
| 2003 | 2004 | 4,736,905,067 | 3,596,644,408 |
| 2002 | 2003 | 3,967,823,787 | 2,935,154,377 |
| 2001 | 2002 | 3,089,203,925 | 2,613,617,963 |
| 2000 | 2001 | 2,629,477,261 | 2,032,117,293 |
| 1999 | 2000 | 2,414,701,961 | 1,915,820,485 |
| 1998 | 1999 | 2,222,040,379 | 1,760,171,312 |
| 1997 | 1998 | 2,151,173,758 | 1,626,655,083 |
| 1996 | 1997 | 2,021,912,630 | 1,534,778,969 |
| 1995 | 1996 | 1,939,952,509 | 1,457,334,346 |

ROAD AND BRIDGE MAINTENANCE

| <u>Tax Roll Year</u> | <u>Budget Year</u> | <u>Gross County Valuation</u> | <u>Net Taxable Valuation (1)</u> |
|--------------------------|------------------------|---------------------------------------|--|
| 2005 | 2006 | \$ 6,188,986,520 | \$ 4,533,989,636 |
| 2004 | 2005 | 5,302,335,538 | 3,994,187,374 |
| 2003 | 2004 | 4,736,905,067 | 3,596,644,408 |
| 2002 | 2003 | 3,967,823,787 | 2,935,154,377 |
| 2001 | 2002 | 3,089,203,925 | 2,613,617,963 |
| 2000 | 2001 | 2,629,477,261 | 2,032,117,293 |
| 1999 | 2000 | 2,414,701,961 | 1,915,820,485 |
| 1998 | 1999 | 2,222,040,379 | 1,760,171,312 |
| 1997 | 1998 | 2,151,173,758 | 1,626,655,083 |
| 1996 | 1997 | 2,021,912,630 | 1,534,778,969 |
| 1995 | 1996 | 1,939,952,509 | 1,457,334,346 |

GENERAL

| Tax Rate Per \$100 | Total Tax Levy | Collections of Current Taxes | Percentage of Levy Collected Currently |
|-------------------------------|---------------------------|---|---|
| \$ 0.47270 | \$ 21,432,169 | \$ 20,538,569 | 95.83% |
| 0.47270 | 18,880,524 | 18,112,086 | 95.93% |
| 0.51930 | 18,677,374 | 17,629,574 | 94.39% |
| 0.48559 | 14,252,816 | 13,753,968 | 96.50% |
| 0.36524 | 9,545,978 | 9,196,595 | 96.34% |
| 0.35050 | 7,122,571 | 6,856,187 | 96.26% |
| 0.37050 | 7,098,115 | 6,780,119 | 95.52% |
| 0.37100 | 6,530,236 | 6,246,170 | 95.65% |
| 0.36775 | 5,982,024 | 5,595,585 | 93.54% |
| 0.36072 | 5,536,255 | 5,256,674 | 94.95% |
| 0.35730 | 5,207,056 | 4,891,508 | 93.94% |

ROAD AND BRIDGE MAINTENANCE

| Tax Rate Per \$100 | Total Tax Levy | Collections of Current Taxes | Percentage of Levy Collected Currently |
|-------------------------------|---------------------------|---|---|
| \$ 0.06500 | \$ 2,947,093 | \$ 2,821,359 | 95.73% |
| 0.07000 | 2,795,931 | 2,682,137 | 95.93% |
| 0.07000 | 2,517,651 | 2,376,411 | 94.39% |
| 0.07000 | 2,054,608 | 1,982,697 | 96.50% |
| 0.10929 | 2,856,423 | 2,751,878 | 96.34% |
| 0.11400 | 2,316,614 | 2,229,972 | 96.26% |
| 0.11400 | 2,184,035 | 2,086,191 | 95.52% |
| 0.10399 | 1,830,402 | 1,750,780 | 95.65% |
| 0.09425 | 1,533,122 | 1,434,083 | 93.54% |
| 0.09095 | 1,395,881 | 1,325,389 | 94.95% |
| 0.08600 | 1,253,308 | 1,177,357 | 93.94% |