

**ERATH COUNTY, TEXAS**

**ANNUAL FINANCIAL  
REPORT**

**FOR THE FISCAL  
YEAR ENDED  
SEPTEMBER 30, 2006**

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FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2006**

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## INDEPENDENT AUDITOR'S REPORT

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To the Honorable Judge and  
Members of the Commissioners Court of  
Erath County, Texas:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Erath County, Texas (the "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 the County's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the County as of September 30, 2006, and the respective changes in financial position, results of its operations, 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 April 27, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 with the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 assessing the results of our audit.

The Management's Discussion and Analysis on pages iii through ix and budgetary comparison information included in Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 Erath County's basic financial statements. The combining schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the County. 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 the County. The combining schedules and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP

Fort Worth, Texas

April 27, 2007

# ERATH COUNTY, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Erath County's (the "County") annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2006. Please read it in conjunction with the County's financial statements.

## FINANCIAL HIGHLIGHTS

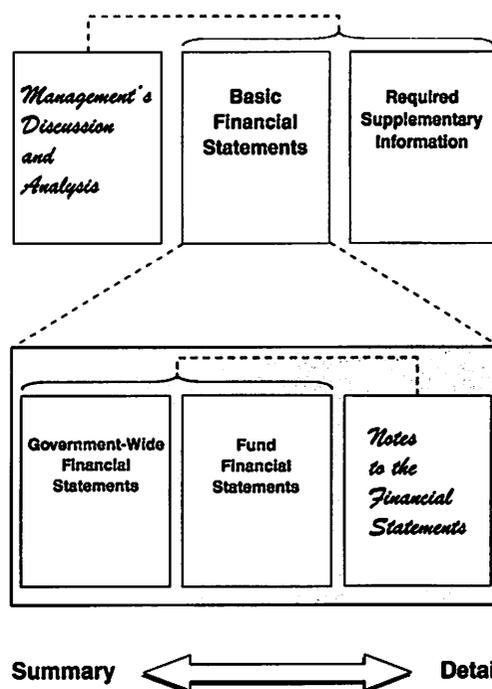
- Erath County's total combined net assets were \$20.9 million at September 30, 2006. Of this amount, \$9.4 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations. The unrestricted net assets represents an increase of approximately \$1 million.
- During the year, the County's expenses were \$1.6 million less than the \$14 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$8.6 million, all of which is available for spending at the government's discretion.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are *Government-Wide Financial Statements* that provide both long-term and short-term information about the County's overall financial status.
- The remaining statements are *Fund Financial Statements* that focus on individual parts of the government, reporting the County's operations in more detail than the government-wide statements.
- The *Governmental Funds* statements tell how *general government* services were financed in the short-term as well as what remains for future spending.
- *Fiduciary Fund* statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

**Figure A-1. Required Components of the County's Annual Financial Report**



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the County’s financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

**FIGURE A-2  
MAJOR FEATURES OF THE COUNTY’S GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

<i>Type of Statement</i>	<b>Government-Wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire County’s government (except fiduciary funds) and the County’s component units	The activities of the County that are not proprietary or fiduciary	Activities of the County operates similar to private businesses: self-insurance	Instances in which the County is the trustee or agent for someone else’s resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency’s funds do not currently contain capital assets, although they can
<i>Type of flow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

### Government-Wide Statements

The Government-Wide Statements are designed to provide readers with a broad overview of the County’s finances, using accounting methods similar to those used by private-sector companies. The *Statement of Net Assets* (Page 1) presents information on all of the County’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the County’s financial position is improving or deteriorating when examined in conjunction with non-financial factors. The *Statement of Activities* (Page 2) presents information showing how the government’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.

Both of these Government-Wide Financial Statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include general government, public safety, roads and bridges, sanitation and economic development. These activities are financed primarily by property taxes and grants.

## Fund Financial Statements

The Fund Financial Statements provide more detailed information about the County's most significant funds – not the County as a whole. Funds are groupings of related accounts that the County uses to keep track of specific sources of funding and spending for particular purposes. The County, like other state and local governments, uses funds to show compliance with finance-related legal requirements as well as to control and manage money for other particular purposes. The County has three types of funds: governmental, proprietary and fiduciary.

The County has three types of funds:

- **Governmental funds**—Most of the County's basic services are included in governmental funds, which focus on short-term inflows and outflows of available resources and the balances of these resources that are available at the end of the year. 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*. These reconciliations can be found on Pages 4 and 6 of the basic financial statements section.

The County maintains several individual governmental funds. Information is presented separately in the governmental fund statements for the general fund and the road and bridge fund, both of which are considered to be major funds. Individual fund data for each of the fourteen non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its funds. Budgetary comparison schedules have been provided on Pages 28-29 to demonstrate compliance with this budget.

- **Proprietary funds** — Proprietary funds consist of two types of funds, enterprise and internal service funds. At this time, Erath County has no enterprise funds. The *Internal Service Fund* reports activities that provide services and supplies for the County's other programs and activities.
- **Fiduciary funds** — The County is the trustee, or *fiduciary*, for certain funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets on Page 10. Fiduciary funds are not reflected in the government-wide financial statements because the County cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Erath County's combined net assets were approximately \$20.9 million at September 30, 2006. A large portion of the County's designated net assets reflects its investment in capital assets (e.g. land, buildings, machinery, equipment), less accumulated depreciation and any related outstanding debt (approximately 44%). An additional portion of the County's net assets (approximately 11%) represent resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately 45%) may be used to meet the County's ongoing obligations to citizens and creditors.

**Table A-1**  
**Erath County's Net Assets**  
*(in thousands)*

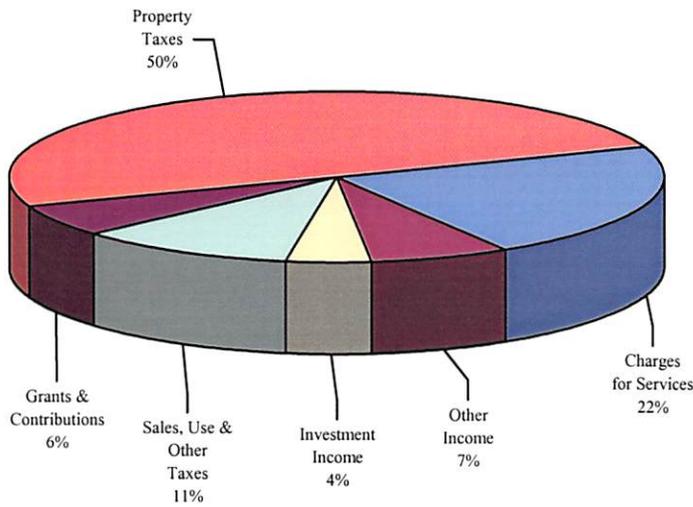
	Governmental Activities	
	2006	2005
Current and Other Assets	\$ 12,977	\$ 10,960
Capital and Non-Current Assets	9,271	9,021
<b>Total Assets</b>	<b>22,248</b>	<b>19,981</b>
Current Liabilities	1,143	496
Long Term Liabilities	169	193
<b>Total Liabilities</b>	<b>1,312</b>	<b>689</b>
Net Assets		
Invested in Capital Assets, net of related debt	9,221	8,923
Restricted	2,332	1,967
Unrestricted	9,383	8,402
<b>Total Net Assets</b>	<b>\$ 20,936</b>	<b>\$ 19,292</b>

**Changes in Net Assets**—Erath County's net assets increased by approximately \$1.6 million during the current fiscal year. Most of this increase represents an increase in tax valuations and a slight increase in the tax rate.

**Table A-2**  
**Erath County Changes in Net Assets**  
*(in thousands)*

	Governmental Activities	
	2006	2005
Revenues:		
Program Revenues		
Charges for Services	\$ 3,028	\$ 2,948
Operating Grants and Contributions	888	237
General Revenues		
Property Taxes	7,056	6,650
Sales and Use and Other Taxes	1,553	1,428
Investment Earnings	529	277
Sales of Assets and Other	923	119
<b>Total Revenues</b>	<b>13,977</b>	<b>11,659</b>
Expenses:		
General Administration	2,925	1,803
Judicial	1,827	1,697
Public Safety and Law Enforcement	3,639	3,641
Road and Bridge	2,838	2,649
Health and Welfare	985	248
Conservation	116	108
Debt Service	3	67
Other	-	1
<b>Total Expenses</b>	<b>12,333</b>	<b>10,214</b>
Increase in Net Assets	1,644	1,445
Beginning Net Assets	19,292	17,847
<b>Ending Net Assets</b>	<b>\$ 20,936</b>	<b>\$ 19,292</b>

**Figure A-3**  
**SOURCES OF REVENUE FOR FISCAL YEAR 2006**



**Governmental Activities**—Total revenues for the fiscal year ending September 30, 2006 were \$14 million. Approximately 62% of the County’s revenue comes from taxes, with over 50% from property taxes alone. Property tax revenue increased due, largely, to an increase in the tax base. Sales taxes increased due to the continuing healthy economy in Erath County.

Expenditures increased by \$2.1 million from the prior year. For the most part, this increase was due to insurance recoveries, indigent legal defense, and HAVA grant expenditures.

**FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS**

As of the end of the fiscal year, Erath County’s governmental funds reported a *combined* fund balance of \$10.9 million. Approximately 79% of this total amount (\$8.6 million) is *unreserved* fund balance, which is available for spending at the government’s discretion. The remainder of fund balance is *reserved*, to indicate that it is not available for new spending because it has already been committed to special purposes by virtue of special revenue funds (\$2.3 million).

The General Fund is the chief operating fund of the County. At the end of the fiscal year, fund balance of \$8.6 million is all unreserved and available for future spending needs. As a measure of the fund’s liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 94% of total General Fund expenditures.

Erath County’s General Fund balance increased by \$1 million during the current fiscal year. This increase was caused by revenue being realized in the amount of approximately \$1.3 thousand above budgeted figures and approximately \$250 thousand less money expended than budgeted.

**General Fund Budgetary Highlights**—Over the course of the year, the County revised its budget several times. With these adjustments, actual expenditures were \$250 thousand below final budgeted amounts. General Administration exceeded its budget by \$289 thousand, and capital outlay exceeded its budget by \$56 thousand

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets**—As of September 30, 2006, the County had invested \$9.3 million in a broad range of capital assets, including land, buildings, roads, bridges and equipment. This amount represents a net increase (including additions, retirements and adjustments) of \$250 thousand or 3% over last year.

Major events affecting capital assets during the year were:

- Additional equipment purchases for the road and bridge precincts, and
- Additional vehicles and equipment for the Sheriff's Department,
- Purchase of fire truck capitalized at \$251,500. The Erath County Volunteer Fire Department received a grant for \$226,500 which they donated to the County and the County contributed \$25,000.

More detailed information about the County's capital assets can be found in Note E of this report.

**Table A-3**  
**Erath County's Capital Assets**

	Governmental Activities		Percent Change
	2006	2005	
Land	\$ 578,580	\$ 546,850	6%
Buildings and Improvements	8,598,479	8,555,114	1%
Furniture and Equipment	7,604,361	6,929,213	10%
Total	16,781,420	16,031,177	5%
Total Accumulated Depreciation	7,510,187	7,009,312	7%
Net Capital Assets	\$ 9,271,233	\$ 9,021,865	3%

**Long Term Debt**—At the end of the year, the County had \$219 thousand of outstanding debt which included compensated absences of \$169 thousand and capital leases of \$50 thousand.

More detailed information about the County's long term liabilities can be found in Notes G, H and I of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The appraised value used for the 2007 budget preparation is estimated to be up \$120,316,145 or 7.38% from 2006.
- The tax rate established for 2007 is \$0.4352 per \$100 valuation, an increase from \$0.441 for 2006.
- Erath County's unemployment rate is currently 3.4%, which is a decrease from a rate of 3.7% one year ago. This compares favorably to the state's average unemployment rate of 4.3% and is well below the average of other counties in the Cross Timbers Area.
- Inflationary trends in the region compare favorably to national indices.

These factors and others were taken into consideration when preparing the General Fund budget for the 2007 fiscal year.

Amounts available for appropriation in the General Fund budget are \$9,698,373, an increase of 3.3% over the 2006 budget of \$9,393,048. The amount appropriated from fund balance is estimated to be approximately \$370,787.

Property taxes (benefiting from the 2006 rate increases and increases in assessed valuations) and state and federal revenue (with anticipated increases in these areas) are expected to lead to this increase.

Budgeted General Fund expenditures are expected to rise approximately 3.3% to \$9,698,550. The largest single increase is a \$276,000 increase in the cost of operating and maintaining the Erath County Jail. The County anticipates building projects in the next few years that include the renovation of a multi-story office building just off the square in Stephenville to be used for future office needs, an expansion of the current jail facility and additional expansion of the Fire/Rescue and Emergency Medical Response facility. The County has added no other major new programs or initiatives to the 2007 budget.

If these estimates are realized, the County's budgetary General Fund balance is expected to decrease by about \$371,000. The decrease, however is considered appropriate since the County will be debt-free and poised to operate from a fiscally sound position in an increasingly uncertain political environment.

### **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of Erath County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of the Erath County Auditor, 100 E. Washington, Stephenville, Texas 76401.

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

	Primary Government
	Governmental Activities
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,314,647
Investments - Current	9,471,719
Receivables (net of allowance for uncollectibles)	1,189,987
Capital Assets:	
Land	578,580
Buildings, net	5,613,173
Furniture and Equipment, net	3,079,480
Total Assets	22,247,586
<b>LIABILITIES</b>	
Accounts Payable and other current liabilities	832,028
Due to Other Governments	238,467
Due to Others	22,611
Noncurrent Liabilities	
Due Within One Year	50,094
Due in More Than One Year	168,573
Total Liabilities	1,311,773
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	9,221,139
Restricted for:	
Restricted for Enabling Legislation	2,332,189
Unrestricted Net Assets	9,382,485
Total Net Assets	\$ 20,935,813

The accompanying notes are an integral part of this statement.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fines, Fees & Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
General Administration	\$ 2,924,825	\$ 1,472,891	\$ 694,036	\$ (757,898)
Judicial Administration	1,826,619	167,717	-	(1,658,902)
Public Safety and Law Enforcement	3,638,725	471,476	150,375	(3,016,874)
Road and Bridge	2,837,957	915,711	43,114	(1,879,132)
Health & Welfare	985,136	405	-	(984,731)
Conservation	116,363	-	-	(116,363)
Debt Service	3,592	-	-	(3,592)
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 12,333,217</b>	<b>\$ 3,028,200</b>	<b>\$ 887,525</b>	<b>(8,417,492)</b>

General Revenues:

Taxes:		
Property Taxes		7,056,245
Other Taxes		1,451,460
Penalty and Interest		101,884
Miscellaneous Revenue		266,184
Investment Earnings		544,868
Special Item-Insurance, Donations & Sale of Assets		640,368
<b>Total General Revenues and Special Items</b>		<b>10,061,009</b>
<b>Change in Net Assets</b>		<b>1,643,517</b>
<b>Net Assets--Beginning</b>		<b>19,292,296</b>
<b>Net Assets--Ending</b>		<b>\$ 20,935,813</b>

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006

	General Fund	Road and Bridge Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 974,307	\$ 329,522	\$ 980,178	\$ 2,284,007
Investments - Current	7,961,821	865,589	309,652	9,137,062
Taxes Receivable	323,394	126,950	28,097	478,441
Allowance for Uncollectible Taxes (credit)	(125,205)	(49,150)	(10,878)	(185,233)
Receivables	545,770	54,972	2,129	602,871
<b>Total Assets</b>	<b>\$ 9,680,087</b>	<b>\$ 1,327,883</b>	<b>\$ 1,309,178</b>	<b>\$ 12,317,148</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 454,115	\$ 93,799	\$ 60,985	\$ 608,899
Wages and Salaries Payable	172,608	47,902	2,619	223,129
Due to Other Governments	233,919	-	4,548	238,467
Due to Others	22,611	-	-	22,611
Deferred Revenues	198,189	77,800	17,219	293,208
<b>Total Liabilities</b>	<b>1,081,442</b>	<b>219,501</b>	<b>85,371</b>	<b>1,386,314</b>
<b>Fund Balances:</b>				
<b>Reserved For:</b>				
Enabling Legislation	-	1,108,382	1,223,807	2,332,189
<b>Unreserved and Undesignated:</b>				
Reported in the General Fund	8,598,645	-	-	8,598,645
<b>Total Fund Balances</b>	<b>8,598,645</b>	<b>1,108,382</b>	<b>1,223,807</b>	<b>10,930,834</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,680,087</b>	<b>\$ 1,327,883</b>	<b>\$ 1,309,178</b>	<b>\$ 12,317,148</b>

The accompanying notes are an integral part of this statement.

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

<b>Total Fund Balances - Governmental Funds</b>	\$	10,930,834
<p>The County uses internal service funds to charge the costs of certain activities, such as self-insurance to appropriate functions in other governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.</p>		
		365,300
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$16,031,177 and the accumulated depreciation was \$7,009,312. In addition, long-term liabilities are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.</p>		
		8,780,289
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2006 capital outlays and debt principal payments is to increase net assets.</p>		
		1,022,378
<p>The 2006 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p>		
		(724,679)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.</p>		
		561,691
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b>20,935,813</b>

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	General Fund	Road and Bridge Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 4,782,028	\$ 1,855,312	\$ 414,189	\$ 7,051,529
Other Taxes	1,451,460	-	-	1,451,460
Penalty and Interest on Taxes	69,518	26,589	5,777	101,884
Licenses and Permits	26,648	820,744	-	847,392
Intergovernmental Revenue and Grants	844,411	43,114	-	887,525
Charges for Services	39,980	-	279	40,259
Fines and Fees	1,965,503	25,301	241,837	2,232,641
Investment Earnings	408,056	70,656	50,171	528,883
Other Revenue	74,745	69,666	101,394	245,805
<b>Total Revenues</b>	<b>9,662,349</b>	<b>2,911,382</b>	<b>813,647</b>	<b>13,387,378</b>
<b>EXPENDITURES:</b>				
Current:				
General Administration	2,789,401	-	3,354	2,792,755
Judicial Administration	1,608,595	-	164,489	1,773,084
Public Safety and Law Enforcement	3,421,563	-	9,158	3,430,721
Road and Bridge	-	2,529,796	-	2,529,796
Health and Welfare	694,876	-	290,260	985,136
Conservation	116,363	-	-	116,363
Debt Service:				
Interest Expense	-	3,592	-	3,592
Capital Outlay:				
Capital Outlay	513,678	415,974	44,395	974,047
<b>Total Expenditures</b>	<b>9,144,476</b>	<b>2,949,362</b>	<b>511,656</b>	<b>12,605,494</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>517,873</b>	<b>(37,980)</b>	<b>301,991</b>	<b>781,884</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	2,167	70,600	61,244	134,011
Transfers In	30,246	-	-	30,246
Other Resources	506,357	-	-	506,357
Transfers Out (Use)	-	-	(30,246)	(30,246)
<b>Total Other Financing Sources (Uses)</b>	<b>538,770</b>	<b>70,600</b>	<b>30,998</b>	<b>640,368</b>
<b>Net Change in Fund Balances</b>	<b>1,056,643</b>	<b>32,620</b>	<b>332,989</b>	<b>1,422,252</b>
<b>Fund Balance - October 1 (Beginning)</b>	<b>7,542,002</b>	<b>1,075,762</b>	<b>890,818</b>	<b>9,508,582</b>
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 8,598,645</b>	<b>\$ 1,108,382</b>	<b>\$ 1,223,807</b>	<b>\$ 10,930,834</b>

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	1,422,252
The County uses some internal service funds to charge the costs of certain activities primarily to the governmental funds. The net income of these internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets.		36,363
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2006 capital outlays and debt principal payments is to increase net assets.		1,022,378
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(724,679)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(112,797)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>1,643,517</u></b>

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2006

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	Internal Service Fund
<hr/>	
ASSETS	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 30,643
Investments - Current	334,657
	<hr/>
Total Assets	365,300
	<hr/>
NET ASSETS	
Unrestricted Net Assets	365,300
	<hr/>
Total Net Assets	\$ 365,300
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Governmental Activities
	Internal Service Fund
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Other Non-Operating Revenues - Interest Earnings	\$ 15,985
Total Non-operating Revenue (Expenses)	15,985
Income Before Transfers	15,985
Non-Operating Transfer In	20,378
Change in Net Assets	36,363
Total Net Assets - October 1 (Beginning)	328,937
Total Net Assets - September 30 (Ending)	\$ 365,300

The accompanying notes are an integral part of this statement.

ERATH COUNTY, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Internal Service Fund
<hr/>	
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Capital Contributed by Other Funds	20,378
<u>Cash Flows from Investing Activities:</u>	
Investment Earnings	15,985
Net Increase in Cash and Cash Equivalents	36,363
Cash and Cash Equivalents at Beginning of the Year:	328,937
Cash and Cash Equivalents at the End of the Year:	<u>\$ 365,300</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

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

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	Agency Fund
<hr/>	
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 2,541,784
<b>Total Assets</b>	<u><u>\$ 2,541,784</u></u>
 <b>LIABILITIES</b>	
Due to Others	\$ 2,541,784
<b>Total Liabilities</b>	<u><u>\$ 2,541,784</u></u>

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

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

**I. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES**

The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution and V.A.C.S. Erath County (the "County") operates under a county judge/commissioners court type of government as provided by state statute. The financial and reporting policies of the County conform to generally accepted accounting principles ("GAAP") applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board ("GASB"), which includes all statements and interpretations of the National Council on Governmental Accounting unless modified by the GASB, and those principles prescribed by the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*.

**A. REPORTING ENTITY**

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations, including required disclosures, of the County's financial activities for the fiscal year ended September 30, 2006.

The County is a body corporate and political which performs all local government functions within its jurisdiction. The County is governed by an elected County Judge and four County Commissioners elected from individual precincts. The Judge and four Commissioners form the governing body, the Commissioners' Court. Various branches of the County government are led by duly elected officials who serve in their positions. These other elected officials are responsible only to the voters for their performance and for the operations of their individual offices but must seek budget approval from the Commissioners' Court.

There are no component units (other governmental entities) over which the County exercises significant controls or has oversight responsibility.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Erath County nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, fines and fees, grants and other intergovernmental revenues. Business type activities include operations that rely, to a significant extent, on fees and charges for support.

The Statement of Activities presents a comparison between expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include a) fees, fines and charges paid by the recipients of goods or services offered by the program, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the governmental fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

**I. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES, continued**

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued**

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for County operations, they are not included in the government-wide statements. The County considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available. Available means collectible within the current period or expected to be collected within 60 days after year end and be used to pay liabilities of the current period. Expenditures are generally recognized in the accounting period in which the fund liability is incurred, if measurable. Exceptions to this general rule include unmatured principal and interest on general long-term obligations which are recognized when due. This exception is in conformity with GAAP. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Property tax revenues and sales tax receipts are considered measurable and available when collected by the respective intermediary collecting agency and recognized as revenue at that time. Property tax revenues are considered measurable at the time of levy and are recognized as deferred revenue and taxes receivable, net of an allowance for estimated uncollectible taxes, at that time. Property tax revenues are considered available if collected within 60 days subsequent to year end. However, the amount of taxes collected in the period 60 days subsequent to year end are considered immaterial and not recorded as current year revenue. All tax collections expected to be received subsequent to year end are, therefore, reported as deferred revenues. Licenses and permits, fines and forfeits, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

**I. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES, continued**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION, continued**

Intergovernmental revenues are recorded on a basis applicable to the legal and contractual requirements of the individual grant programs. If funds must be expended on the specific purpose or project before any amounts will be paid to the County, revenues are recognized as the expenditures or expenses are recorded. If funds are virtually unrestricted and irrevocable, except for failure to comply with required compliance requirements, revenues are recognized when received or susceptible to accrual. Federal and State grants awarded on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursable-type grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The County applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**D. FUND ACCOUNTING**

The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. 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. County funds do not include funds held by County offices, which are not yet remitted to the County Treasurer. County funds are amounts which have been received by the County Treasurer and which are subject to control by the Commissioners' Court. These various County funds, which are reported as Governmental Funds in the financial statements of this report, are grouped into three fund types: General Fund, Special Revenue Funds and Debt Service Fund. The remaining funds held by other County offices are reported as Fiduciary Funds and are not subject to control by the Commissioner's Court.

**Major Governmental Funds:**

**General Fund** - The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

**Road and Bridge Fund** - The Road and Bridge Fund is a special revenue fund that is used to account for resources used by the County in connection with providing transportation services to its citizens.

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

**I. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES, continued**

**D. FUND ACCOUNTING, continued**

Non-Major Governmental Funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for the specified purpose of the retirement of long-term debt.

Proprietary Funds:

Internal Service Funds – The County uses these funds to account for the financing of goods or services provided by one department or other departments of the County, on a cost-reimbursement basis.

Fiduciary Funds:

Fiduciary Funds, which include funds held by County offices, also are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other government, and/or other funds. These include Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Formal budgetary accounting is not required for Fiduciary Funds.

**E. OTHER ACCOUNTING POLICIES**

1. The County considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
2. In the government-wide financial statements and Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognized bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. Capital assets, include land, buildings, furniture and equipment and are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. 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.

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

**I. SUMMARY OF SIGIFICANT ACCOUNTING POLICIES, continued**

**E. OTHER ACCOUNTING POLICIES, continued**

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, vehicles, furniture and equipment of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	30-40
Vehicles and Heavy Equipment	3-12

4. The County provides statutory workers' compensation insurance for its employees through Texas Association of Counties ("TAC"), a joint insurance fund, in which the County is a member.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by enabling legislation. Designations of fund balance represent tentative management plans that are subject to change. Amounts reserved in the various governmental funds are as follows:

Road and Bridge	\$ 1,108,382
All Other Special Revenue Funds	<u>1,223,807</u>
Total Reserved Fund Balance	<u>\$ 2,332,189</u>

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

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Page 4 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Non-depreciable Assets				
Land	\$ 546,850	\$ -	\$ 546,850	\$
Total Non-depreciable Assets	<u>546,850</u>	<u>-</u>	<u>546,850</u>	
Depreciable Assets				
Buildings and Improvements	8,555,114	2,776,895	5,778,219	
Furniture and Equipment	<u>6,929,213</u>	<u>4,232,417</u>	<u>2,696,796</u>	
Total Depreciable Assets	<u>15,484,327</u>	<u>7,009,312</u>	<u>8,475,015</u>	
Total Capital Assets	<u>\$ 16,031,177</u>	<u>\$ 7,009,312</u>	<u>\$ 9,021,865</u>	
Change in Net Assets				9,021,865
Long-term Liabilities at the Beginning of the year			<u>Payable at the Beginning of the Year</u>	
Capital Leases			\$ 98,425	
Compensated Absences			<u>143,151</u>	
Change in Net Assets			<u>\$ 241,576</u>	<u>(241,576)</u>
Net Adjustment to Net Assets				<u>\$ 8,780,289</u>

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

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Page 6 provides a reconciliation between the net changes in fund balance as shown on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Changes in Net Assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Land	\$ 31,730	\$	\$
Buildings and Improvements	43,365		
Furniture and Equipment	898,952		
Total Capital Outlay	<u>974,047</u>	974,047	974,047
<u>Debt Principal Payments</u>			
Capital Lease	48,331		
		48,331	48,331
Total Adjustment to Net Assets		<u>\$ 1,022,378</u>	<u>\$ 1,022,378</u>

Another element of the reconciliations on Pages 4 and 6 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 99,723	\$ (99,723)	\$ -
Uncollected Taxes (assumed collectible) from Current Year Levy	83,583	83,583	83,583
Uncollected Taxes (assumed collectible) from Prior Year Levy	209,625	-	209,625
Difference in Prior Year and Current Year Estimates	20,856	20,856	-
Subtotal		<u>4,716</u>	<u>293,208</u>
<u>Other</u>			
Other Office Beginning Receivables	385,996	-	385,996
Decrease in Other Office Receivables	92,091	(92,091)	(92,091)
Increase in Compensated Absences	25,422	(25,422)	(25,422)
Subtotal		<u>(117,513)</u>	<u>268,483</u>
		<u>\$ (112,797)</u>	<u>\$ 561,691</u>

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

**III. PROPERTY TAX**

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature that affects the methods of property assessment and tax collection in the County. This legislation, with certain exceptions, exempts intangible personal property, household goods and family-owned automobiles from taxation. In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of county wide Appraisal Districts and for the State Property Tax Board which commenced operation in January, 1980.

Erath County Appraisal District appraises property values in the County. The Erath County Tax Assessor-Collector assesses and collects the County's property taxes. The County is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. Beginning January 1, 1984, the value of property within the Appraisal District must be reappraised every three years. The County may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the County continues to set tax rates on County property. However, if the effective tax rates for bonds and other contractual obligations and adjustments for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the County may petition for an election to determine whether to limit the tax rate to no more than 8% above the effective tax rate of the previous year.

The County is permitted by Article 8, Section 9 of the State of Texas Constitution to levy taxes up to \$0.80 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt.

The County's taxes on real property are a lien against such property until paid. The County may foreclose real property upon which it has a lien for unpaid taxes. Although the County makes little effort to collect delinquent taxes through foreclosure proceedings, delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer of the title on property.

The tax rates assessed for the year ended September 30, 2006 to finance maintenance and operations of the County and Road and Bridge were \$0.324 and \$0.117 per \$100 valuation, respectively, for a total of \$0.441 per \$100 valuation.

Property tax revenues are recorded as receivables and deferred revenue at the time the tax levy is billed. Revenues are recognized as the related property taxes are collected and are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within funds are based upon historical experience in collecting property taxes.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS, SECURITIES AND INVESTMENTS**

**Legal and Contractual Provisions Governing Deposits and Investments**

The funds of the County must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the County's agent bank in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2006, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,314,647 and the bank balance was \$2,510,957.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the County to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the County to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the County to have independent auditors perform test procedures related to investment practices as provided by the Act. The County is in substantial compliance with the requirements of the Act and with local policies.

Investments at September 30, 2006 consisted of the following:

Certificates of Deposit	\$ 4,000,000
TexPool	<u>5,471,719</u>
	<u>\$ 9,471,719</u>

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool. TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**A. DEPOSITS, SECURITIES AND INVESTMENTS, continued**

TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. KPMG Peat Marwick, 111 Congress Avenue, Suite 1100, Austin, Texas 78701 performs the annual audit. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the County has adopted a deposit and investment policy. That policy does address the following risks:

**Custodial Credit Risk – Deposits:** This is the risk that in the event of bank failure, the County's deposits may not be returned to it. The County was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2006 were covered by depository insurance or by pledged collateral held by the County's agent bank.

**Custodial Credit Risk – Investments:** This is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC. As of September 30, 2006, TexPool's investments credit quality rating was AAAM (Standard & Poor's).

**B. PROPERTY TAX RECEIVABLE**

The following schedule details property taxes receivable by fund:

	Property Taxes Receivable	Allowance for Uncollectible	Total
General	\$ 323,394	\$ 125,205	\$ 198,189
Indigent Health	28,097	10,878	17,219
Road and Bridge	126,950	49,150	77,800
Total	<u>\$ 478,441</u>	<u>\$ 185,233</u>	<u>\$ 293,208</u>

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**C. INTERFUND BALANCES AND TRANSFERS**

There were no interfund receivables or payables at September 30, 2006.

Interfund transfers during the year ended September 30, 2006 consisted of the following amounts:

Transfers from the Debt Service Fund to General Fund	<u>\$ 30,246</u>
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**D. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at September 30, 2006, were as follows:

	<u>Property Taxes</u>	<u>Accounts Receivable</u>	<u>Total Receivables</u>
<b>Governmental Activities</b>			
General Fund	\$ 323,394	\$ 545,770	\$ 869,164
Road and Bridge Fund	126,950	54,972	181,922
Other Non-major Governmental Funds	<u>28,097</u>	<u>2,129</u>	<u>30,226</u>
Total – Governmental Activities	<u>\$ 478,441</u>	<u>\$ 602,871</u>	<u>\$ 1,081,312</u>
 Amounts not scheduled for collection during the subsequent year	 <u>\$ 185,233</u>	 <u>\$ -</u>	 <u>\$ 185,233</u>

Payables at September 30, 2006 were as follows:

	<u>Accounts Payable</u>	<u>Salaries Payable</u>	<u>Due to Other Governments</u>	<u>Due to Others</u>	<u>Total</u>
<b>Governmental Activities</b>					
General Fund	\$ 454,115	\$ 172,608	\$ 233,919	\$ 22,611	\$ 883,253
Road and Bridge Fund	93,799	47,902	-	-	141,701
Other Non-major Governmental Funds	<u>60,985</u>	<u>2,619</u>	<u>4,548</u>	<u>-</u>	<u>68,152</u>
Total – Governmental Activities	<u>\$ 608,899</u>	<u>\$ 223,129</u>	<u>\$ 238,467</u>	<u>\$ 22,611</u>	<u>\$ 1,093,106</u>

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**E. CAPITAL ASSET ACTIVITY**

Capital asset activity for the County for the year ended September 30, 2006 was as follows:

	Balance October 1, 2005	Additions	Retirements	Balance September 30, 2006
<b>Governmental Activities:</b>				
Land	\$ 546,850	\$ 31,730	\$ -	\$ 578,580
Total Non-depreciable	546,850	31,730	-	578,580
Buildings and Improvements	8,555,114	43,365	-	8,598,479
Furniture and Equipment	6,929,213	898,952	(223,804)	7,604,361
Total Depreciable	15,484,327	942,317	(223,804)	16,202,840
Totals at Historic Cost	16,031,177	974,047	(223,804)	16,781,420
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	2,776,895	208,411	-	2,985,306
Furniture and Equipment	4,232,417	516,268	(223,804)	4,524,881
Total Accumulated Depreciation	7,009,312	724,679	(223,804)	7,510,187
Net Depreciable Assets	8,475,015	217,638	-	8,692,653
Governmental Activities Capital Assets, Net	\$ 9,021,865	\$ 249,368	\$ -	\$ 9,271,233

Infrastructure assets (roads and bridges) are not included in Erath County's capital assets as of the end of fiscal year 2006. Under GASB 34, Phase III governments are not required to report these assets retroactively.

Current year depreciation expense was charged to governmental functions as follows:

General Government	\$ 106,648
Judicial Administration	53,535
Public Safety	208,004
Public Transportation	356,492
Total Depreciation Expense	\$ 724,679

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**F. DEFERRED REVENUE**

Deferred revenue at year-end as reported on Page 3 of the Funds Statements consisted of the following:

	General Fund	Road and Bridge Fund	Other Funds	Total
Net Tax Revenue	\$ 198,189	\$ 77,800	\$ 17,219	\$ 293,208

Adjustments required for Government-Wide Statement of Net Assets decreased deferred revenue by \$293,208.

**G. CAPITAL LEASES**

The County has entered into a capital lease for the purchase of heavy equipment which meets the criteria for a capital lease.

Assets acquired through capital leases are as follows:

Heavy equipment	\$ 150,348
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Debt service requirement are as follows:

Year Ending September 30,	Principal	Interest	Total Requirements
2007	\$ 50,094	\$ 1,828	\$ 51,922

**H. COMPENSATED ABSENCES**

County policy allows accrual of vacation and sick pay benefit for all employees other than elected and appointed officials. The expense of the benefits is recognized when incurred. Vacation pay is paid upon termination if the employee gives two weeks' notice or is terminated by the County. Ten percent of sick pay is paid upon termination. At September 30, 2006 the value of accumulated vacation benefits was \$122,346 and the value of accumulated sick pay benefits was approximately \$46,227, for a total of \$168,573.

Due to the current portion of accrued vacation pay and sick pay being immaterial, the entire liability has been classified as long-term.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**I. CHANGES IN LONG-TERM LIABILITIES**

Activity for long-term debt for the year ended September 30, 2006 was as follows:

	Balance 10/1/05	Increase	Decrease	Balance 9/30/06	Due Within One Year
Capital Lease	\$ 98,425	\$ -	\$ 48,331	\$ 50,094	\$ 50,094
Compensated Absences	143,151	25,422	-	168,573	-
Totals	<u>\$ 241,576</u>	<u>\$ 25,422</u>	<u>\$ 48,331</u>	<u>\$ 218,667</u>	<u>\$ 50,094</u>

**J. RISK MANAGEMENT**

The County has risk exposure in various areas including general liability, workers compensation, automobile liability, property damage, etc. To reduce its risk exposure in these areas, the County is a member of Texas Association of Counties Risk Pool ("the Pool") for liability, property, and worker's compensation. The Pool is a public entity risk pool and was created based on the general objectives of formulating, developing and administering a program of self-insurance for the membership and obtaining lower costs for coverage. The Pool coverage is offered through interlocal agreements between the Pool and counties. The Pool has the power to establish fees, contributions and methods for establishing rates. Under contract with the Pool, the Association provides for such services as claims administration and management, underwriting, loss control services and training, and financial reporting for its members. The Association submits sealed bids to counties during the bid process. The Pool is governed by a Board of Directors made up of employees or officials of counties, which are members of the Pool. Member counties make contributions to the Pool, and the pool provides insurance coverage and applicable reinsurance or stop loss coverage. The insurance policies carry various deductibles and aggregate maximum loss totals. The by-laws of the pool are detailed in a separate document, which can be obtained from the Texas Association of Counties, 1210 San Antonio Street, Austin, TX 78701.

**K. HEALTH CARE**

During the year ended September 30, 2006, employees of the County were covered by a health insurance plan. Employees had the option of participating in either an HMO or PPO provider plan. Employees, at their option, authorize payroll withholdings to pay remaining premiums for dependents. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51.2 of the Texas Insurance Code and was documented by contract agreement. For fiscal year 2006, the County paid \$751,327 in net premiums.

**L. RETIREMENT PENSION PLAN**

Plan Description:

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit 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 575 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 the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**L. RETIREMENT PENSION PLAN, continued**

The plan provisions are adopted by the Commissioners' Court 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 20 years of service regardless of age, or when the sum of their age and years of services equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits 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 employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Commissioners' Court within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the County's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy:**

The County 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 County contributed using the actuarially determined rate of 7.65% for the months of the accounting year 2005, and 7.61% for the months of the accounting year 2006.

The deposit rate payable by the employee members for calendar year 2006 is the rate of 7% as adopted by the Commissioners' Court. The employee deposit rate and the employer contribution rate may be changed by the Commissioners' Court within the options available in the TCDRS Act.

**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 \$390,212, and the actual contributions were \$390,212.

The annual required contributors 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, 2000 and December 31, 2004, the basis for determining the contribution rates for calendar years 2005-2006. The December 31, 2005 actuarial valuation is the most recent valuation.

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

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS, continued**

**L. RETIREMENT PENSION PLAN, continued**

Actuarial Valuation Information:

Actuarial 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 20 years	Level percentage of payroll, open 20 years	Level percentage of payroll, open 20 years
Amortization period	20 years	20 years	20 years
Asset valuation method	Long-term appreciation with adjustment	Long-term appreciation with adjustment	Long-term appreciation with adjustment

Actuarial Assumptions:

	12/31/2003	12/31/2004	12/31/2005
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.50%	5.50%	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 for the Retirement Plan  
For the Employees of Erath County**

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)l</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2004	\$ 344,146	100%	-
9/30/2005	319,228	100%	-
9/30/2006	390,212	100%	-

**REQUIRED SUPPLEMENTARY INFORMATION**

**ERATH COUNTY, TEXAS  
 TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM TREND DATA  
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN  
 FOR THE EMPLOYEES OF THE COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION  
 (UNAUDITED)**

Schedule of Funding Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/03	\$ 7,663,716	\$ 8,852,026	\$ 1,188,310	86.58%	\$ 4,384,695	27.10%
12/31/04	8,420,161	9,633,917	1,213,756	87.40%	4,462,934	27.20%
12/31/05	9,627,448	10,865,008	1,237,560	88.61%	4,717,296	26.23%

ERATH COUNTY, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 4,885,541	\$ 4,885,541	\$ 4,782,028	\$ (103,513)
Other Taxes	1,295,000	1,295,000	1,451,460	156,460
Penalty and Interest on Taxes	64,500	64,500	69,518	5,018
Licenses and Permits	15,000	16,168	26,648	10,480
Intergovernmental Revenue and Grants	626,303	643,716	844,411	200,695
Charges for Services	27,000	27,000	39,980	12,980
Fines and Fees	1,315,755	1,315,755	1,965,503	649,748
Investment Earnings	133,100	133,100	408,056	274,956
Other Revenue	6,250	10,999	74,745	63,746
<b>Total Revenues</b>	<b>8,368,449</b>	<b>8,391,778</b>	<b>9,662,349</b>	<b>1,270,571</b>
<b>EXPENDITURES:</b>				
Current:				
General Administration	2,525,135	2,500,477	2,789,401	(288,924)
Judicial Administration	1,881,208	1,896,286	1,608,595	287,691
Public Safety and Law Enforcement	3,506,556	3,530,218	3,421,563	108,655
Health and Welfare	909,336	888,057	694,876	193,181
Conservation	121,961	121,961	116,363	5,598
Capital Outlay:				
Capital Outlay	429,355	457,181	513,678	(56,497)
<b>Total Expenditures</b>	<b>9,373,551</b>	<b>9,394,180</b>	<b>9,144,476</b>	<b>249,704</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(1,005,102)</b>	<b>(1,002,402)</b>	<b>517,873</b>	<b>1,520,275</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	-	-	2,167	2,167
Transfers In	1,002,401	1,002,401	30,246	(972,155)
Other Resources	-	-	506,357	506,357
<b>Total Other Financing Sources (Uses)</b>	<b>1,002,401</b>	<b>1,002,401</b>	<b>538,770</b>	<b>(463,631)</b>
<b>Net Change</b>	<b>(2,701)</b>	<b>(1)</b>	<b>1,056,643</b>	<b>1,056,644</b>
<b>Fund Balance - October 1 (Beginning)</b>	<b>7,542,002</b>	<b>7,542,002</b>	<b>7,542,002</b>	<b>-</b>
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 7,539,301</b>	<b>\$ 7,542,001</b>	<b>\$ 8,598,645</b>	<b>\$ 1,056,644</b>

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

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 1,938,153	\$ 1,938,153	\$ 1,855,312	\$ (82,841)
Penalty and Interest on Taxes	27,300	27,300	26,589	(711)
Licenses and Permits	780,451	780,451	820,744	40,293
Intergovernmental Revenue and Grants	32,400	32,400	43,114	10,714
Fines and Fees	-	-	25,301	25,301
Investment Earnings	32,300	32,300	70,656	38,356
Other Revenue	10,000	30,000	69,666	39,666
<b>Total Revenues</b>	<b>2,820,604</b>	<b>2,840,604</b>	<b>2,911,382</b>	<b>70,778</b>
<b>EXPENDITURES:</b>				
Current:				
Road and Bridge	2,684,382	2,824,940	2,529,796	295,144
Debt Service:				
Interest Expense	1,807	3,592	3,592	-
Capital Outlay:				
Capital Outlay	612,500	558,156	415,974	142,182
<b>Total Expenditures</b>	<b>3,298,689</b>	<b>3,386,688</b>	<b>2,949,362</b>	<b>437,326</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(478,085)</b>	<b>(546,084)</b>	<b>(37,980)</b>	<b>508,104</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	41,500	109,500	70,600	(38,900)
Transfers In	576,582	576,592	-	(576,592)
Transfers Out (Use)	(140,007)	(140,007)	-	140,007
<b>Total Other Financing Sources (Uses)</b>	<b>478,075</b>	<b>546,085</b>	<b>70,600</b>	<b>(475,485)</b>
<b>Change in Fund Balance</b>	<b>(10)</b>	<b>1</b>	<b>32,620</b>	<b>32,619</b>
Fund Balance - October 1 (Beginning)	1,075,762	1,075,762	1,075,762	-
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 1,075,752</b>	<b>\$ 1,075,762</b>	<b>\$ 1,108,382</b>	<b>\$ 32,620</b>

**ERATH COUNTY, TEXAS  
SEPTEMBER 30, 2006**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**A. BUDGETARY DATA**

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

1. In the event the Commissioners' Court increases property taxes three percent or less, no public hearing is required. If the Court increases taxes more than three but less than eight percent, then a public hearing is required prior to final adoption. If the Court increases taxes more than eight percent, a public hearing is required and taxes are subject to a rollback petition and election. Beginning with the 1999 tax levy, any increase in property taxes will require a public hearing.
2. Public hearings are conducted at the Erath County Courthouse to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through adoption of an order by the Commissioners' Court.
4. Any Amendments, which alter expenditures of any department, must be approved by the Commissioners' Court. There must be an emergency condition existing in order for the Court to increase the total budget.
5. Budgets for the various funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), with the exception of tax revenues being reported on the cash basis. Budget and actual amounts are recorded on the same basis.
6. Expenditures in excess of appropriations are required by state statutes to be reported down to the department classification.
7. The budgeted amounts presented in these statements are as originally adopted, or as amended by, the commissioners' Court during the year ended September 30, 2006.

**B. EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Expenditures exceeded appropriations in two categories of the General Fund.

**COMBINING SCHEDULES**

ERATH COUNTY, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2006

	210 Indigent Health Fund	215 Law Library Fund	225 Courthouse Security Fund	230 Unclaimed Property Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 24,911	\$ 24,619	\$ 236,140	\$ 5,030
Investments - Current	309,652	-	-	-
Taxes Receivable	28,097	-	-	-
Allowance for Uncollectible Taxes (credit)	(10,878)	-	-	-
Receivables	1,577	-	220	-
Total Assets	<u>\$ 353,359</u>	<u>\$ 24,619</u>	<u>\$ 236,360</u>	<u>\$ 5,030</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 6,798	\$ 5,222	\$ 35,395	\$ -
Wages and Salaries Payable	-	-	-	-
Due to Other Governments	-	-	-	4,548
Deferred Revenues	17,219	-	-	-
Total Liabilities	<u>24,017</u>	<u>5,222</u>	<u>35,395</u>	<u>4,548</u>
<b>Fund Balances:</b>				
<b>Reserved For:</b>				
Enabling Legislation	329,342	19,397	200,965	482
Total Fund Balances	<u>329,342</u>	<u>19,397</u>	<u>200,965</u>	<u>482</u>
Total Liabilities and Fund Balances	<u>\$ 353,359</u>	<u>\$ 24,619</u>	<u>\$ 236,360</u>	<u>\$ 5,030</u>

235 Records Management Fund	240 Records Preservation Fund	245 County Attorney Hot Check Fund	250 District Attorney Hot Check Fund	255 District Attorney Bond Forfeiture	260 Sheriff Forfeiture Fund	270 District Clerk Records Management	Total Nonmajor Special Revenue Funds
\$ 367,978	\$ 88,587	\$ 19,313	\$ 7,376	\$ 87,398	\$ 118,806	\$ 20	\$ 980,178
-	-	-	-	-	-	-	309,652
-	-	-	-	-	-	-	28,097
-	-	-	-	-	-	-	(10,878)
13	268	29	14	-	-	8	2,129
<u>\$ 367,991</u>	<u>\$ 88,855</u>	<u>\$ 19,342</u>	<u>\$ 7,390</u>	<u>\$ 87,398</u>	<u>\$ 118,806</u>	<u>\$ 28</u>	<u>\$ 1,309,178</u>
\$ 12,092	\$ -	\$ 77	\$ -	\$ 1,401	\$ -	\$ -	\$ 60,985
408	-	2,211	-	-	-	-	2,619
-	-	-	-	-	-	-	4,548
-	-	-	-	-	-	-	17,219
<u>12,500</u>	<u>-</u>	<u>2,288</u>	<u>-</u>	<u>1,401</u>	<u>-</u>	<u>-</u>	<u>85,371</u>
<u>355,491</u>	<u>88,855</u>	<u>17,054</u>	<u>7,390</u>	<u>85,997</u>	<u>118,806</u>	<u>28</u>	<u>1,223,807</u>
<u>355,491</u>	<u>88,855</u>	<u>17,054</u>	<u>7,390</u>	<u>85,997</u>	<u>118,806</u>	<u>28</u>	<u>1,223,807</u>
<u>\$ 367,991</u>	<u>\$ 88,855</u>	<u>\$ 19,342</u>	<u>\$ 7,390</u>	<u>\$ 87,398</u>	<u>\$ 118,806</u>	<u>\$ 28</u>	<u>\$ 1,309,178</u>

ERATH COUNTY, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2006

	500 Debt Service Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 980,178
Investments - Current	-	309,652
Taxes Receivable	-	28,097
Allowance for Uncollectible Taxes (credit)	-	(10,878)
Receivables	-	2,129
Total Assets	\$ -	\$ 1,309,178
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts Payable	\$ -	\$ 60,985
Wages and Salaries Payable	-	2,619
Due to Other Governments	-	4,548
Deferred Revenues	-	17,219
Total Liabilities	-	85,371
<b>Fund Balances:</b>		
<b>Reserved For:</b>		
Enabling Legislation	-	1,223,807
Total Fund Balances	-	1,223,807
Total Liabilities and Fund Balances	\$ -	\$ 1,309,178

ERATH COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Indigent Health Fund	Law Library Fund	Courthouse Security Fund	Unclaimed Property Fund
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 414,189	\$ -	\$ -	\$ -
Penalty and Interest on Taxes	5,777	-	-	-
Charges for Services	-	-	-	-
Fines and Fees	-	19,716	30,701	-
Investment Earnings	16,035	1,137	9,712	222
Other Revenue	405	-	-	-
Total Revenues	436,406	20,853	40,413	222
<b>EXPENDITURES:</b>				
Current:				
General Administration	-	-	3,354	-
Judicial Administration	-	28,780	-	-
Public Safety and Law Enforcement	-	-	-	-
Health and Welfare	290,260	-	-	-
Capital Outlay:				
Capital Outlay	-	-	35,395	-
Total Expenditures	290,260	28,780	38,749	-
Excess (Deficiency) of Revenues Over Expenditures	146,146	(7,927)	1,664	222
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	-	-	-	-
Transfers Out (Use)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balance	146,146	(7,927)	1,664	222
Fund Balance - October 1 (Beginning)	183,196	27,324	199,301	260
Fund Balance - September 30 (Ending)	\$ 329,342	\$ 19,397	\$ 200,965	\$ 482

Records Management Fund	Records Preservation Fund	County Attorney Hot Check Fund	District Attorney Hot Check Fund	District Attorney Bond Forfeiture	Sheriff Forfeiture Fund	District Clerk Records Management	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 414,189
-	-	-	-	-	-	-	5,777
-	-	-	-	279	-	-	279
130,709	16,412	43,669	602	-	-	28	241,837
13,969	3,607	1,420	301	1,954	1,548	-	49,905
-	-	-	-	-	100,989	-	101,394
<u>144,678</u>	<u>20,019</u>	<u>45,089</u>	<u>903</u>	<u>2,233</u>	<u>102,537</u>	<u>28</u>	<u>813,381</u>
-	-	-	-	-	-	-	3,354
50,134	7,332	76,842	-	1,401	-	-	164,489
-	-	-	-	-	9,158	-	9,158
-	-	-	-	-	-	-	290,260
-	-	-	-	-	9,000	-	44,395
<u>50,134</u>	<u>7,332</u>	<u>76,842</u>	<u>-</u>	<u>1,401</u>	<u>18,158</u>	<u>-</u>	<u>511,656</u>
<u>94,544</u>	<u>12,687</u>	<u>(31,753)</u>	<u>903</u>	<u>832</u>	<u>84,379</u>	<u>28</u>	<u>301,725</u>
-	-	-	-	50,573	10,671	-	61,244
-	-	-	-	-	-	-	-
-	-	-	-	50,573	10,671	-	61,244
94,544	12,687	(31,753)	903	51,405	95,050	28	362,969
<u>260,947</u>	<u>76,168</u>	<u>48,807</u>	<u>6,487</u>	<u>34,592</u>	<u>23,756</u>	<u>-</u>	<u>860,838</u>
<u>\$ 355,491</u>	<u>\$ 88,855</u>	<u>\$ 17,054</u>	<u>\$ 7,390</u>	<u>\$ 85,997</u>	<u>\$ 118,806</u>	<u>\$ 28</u>	<u>\$ 1,223,807</u>

ERATH COUNTY, TEXAS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Debt Service Fund	Nonmajor Governmental Funds
<b>REVENUES:</b>		
Taxes:		
Property Taxes	\$ -	\$ 414,189
Penalty and Interest on Taxes	-	5,777
Charges for Services	-	279
Fines and Fees	-	241,837
Investment Earnings	266	50,171
Other Revenue	-	101,394
Total Revenues	<u>266</u>	<u>813,647</u>
<b>EXPENDITURES:</b>		
Current:		
General Administration	-	3,354
Judicial Administration	-	164,489
Public Safety and Law Enforcement	-	9,158
Health and Welfare	-	290,260
Capital Outlay:		
Capital Outlay	-	44,395
Total Expenditures	<u>-</u>	<u>511,656</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>266</u>	<u>301,991</u>
<b>OTHER FINANCING SOURCES (USES):</b>		
Sale of Real and Personal Property	-	61,244
Transfers Out (Use)	<u>(30,246)</u>	<u>(30,246)</u>
Total Other Financing Sources (Uses)	<u>(30,246)</u>	<u>30,998</u>
Net Change in Fund Balance	(29,980)	332,989
Fund Balance - October 1 (Beginning)	<u>29,980</u>	<u>890,818</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 1,223,807</u>

**FEDERAL AWARDS 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

1300 S. University Dr.  
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Fort Worth, Texas  
76107-5737

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To the Honorable Judge and  
Members of the Commissioners' Court of  
Erath County, Texas:

We have audited the basic financial statements of Erath County, Texas, as of and for the year ended September 30, 2006, and have issued our report thereon dated April 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's 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 non-compliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Commissioners' Court and management and is not intended to be used and should not be used by anyone other than these specified parties.

*Stovall, Grandey & Allen, LLP*

STOVALL, GRANDEY & ALLEN, LLP  
Fort Worth, Texas  
April 27, 2007

**FEDERAL AWARDS SECTION**



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

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

**Compliance**

We have audited the compliance of Erath County (the "County") 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. The County's major federal programs are identified in the summary of auditor's 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 the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's 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 on the County's compliance with those requirements.

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

**Internal Control Over Compliance**

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's 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 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 reportable 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 applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 for the information of the County's administration, the audit committee, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP  
Fort Worth, Texas  
April 27, 2007, except for the schedule of  
expenditures of federal and state awards  
which is dated June 6, 2007

**ERATH COUNTY, TEXAS  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>Federal Awards</b>		
<b>U.S. ELECTIONS ASSISTANCE COMMISSION</b>		
<u>Texas Secretary of State Elections Division</u>		
General HAVA Compliance	90.401	\$ 400,045
Voting System Accessibility	90.401	76,950
County Education	39.011	<u>3,712</u>
Total Texas Secretary of State, Elections Division		<u>480,707</u>
Total Election Assistance Commission		<u>480,707</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
Passed through the Texas Department of Public Safety's Division of Emergency Management Federal Emergency Management Agency		
	97.036	<u>144,559</u>
Total Homeland Security		<u>144,559</u>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 625,266</u></b>
<b>State Awards</b>		
<b>TEXAS SECRETARY OF STATE ELECTIONS DIVISION</b>		
<u>Direct Program</u>		
General HAVA Compliance	90.401	\$ 21,055
Voting System Accessibility	90.401	4,050
Total Texas Secretary of State, Elections Division		<u>25,105</u>
<b>Total Expenditures of State Awards</b>		<b><u>\$ 25,105</u></b>

**ERATH COUNTY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2006**

1. For all Federal programs, the County uses the fund types specified by the Governmental Accounting Standards Board. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.

**EARTH COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**Type of Report on Financial Statements**

Unqualified

**Reportable Conditions**

None

**Noncompliance material to the financial statements**

None

**Type of Report on Compliance with Major Programs**

Unqualified opinion

**Findings and Questioned Costs for Federal Awards as defined in Section \_\_.510(a), OMB A-133**

None

**Dollar Threshold Considered Between Type A and Type B Federal Programs**

\$300,000

**Low Risk Auditee Statements**

The County was not classified as a low-risk auditee in the context of OMB Circular A-133

**Major Federal Programs**

<u>Program</u>	<u>CFDA No.</u>	<u>Pass Through Agency</u>
Help America Vote Act (HAVA)	90.401	Texas Atty. General's Office, Elections Div.

**ERATH COUNTY  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

**Schedule Reference Number:**

There were no prior findings