

ERATH COUNTY, TEXAS

ANNUAL
FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2008

ERATH COUNTY, TEXAS
Annual Financial Report
Year Ended September 30, 2008

Table of Contents

	<u>Exhibit No.</u>	<u>Page No.</u>
FINANCIAL SECTION		
Independent Auditor's Report		1
Management's Discussion and Analysis		3
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	A-1	10
Statement of Activities	A-2	11
 Fund Financial Statements:		
Balance Sheet – Governmental Funds	A-3	12
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets	A-4	13
Statement of Revenues, Expenditures and Changes in		
Fund Balance – Governmental Funds	A-5	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balance of Governmental Funds to the Statement of Activities	A-6	15
Statement of Net Assets – Proprietary Funds	A-7	16
Statement of Revenues, Expenses and Changes in Fund Net Assets –		
Proprietary Funds	A-8	17
Statement of Cash Flows – Proprietary Funds	A-9	18
Statement of Fiduciary Net Assets – Fiduciary Fund	A-10	19
Notes to Financial Statements		20
 <u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund	B-1	33
Major Funds:		
Road and Bridge Fund	B-2	34
Schedule of Funding Progress – Pension Plan		35
Notes to Required Supplementary Information		36

ERATH COUNTY, TEXAS
Annual Financial Report
Year Ended September 30, 2008

Table of Contents

	<u>Exhibit No.</u>	<u>Page No.</u>
<u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u>		
Combining Balance Sheet – Nonmajor Governmental Funds	C-1	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	C-2	38
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities	C-3	39
 SINGLE AUDIT SECTION		
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		41
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance With OMB Circular A-133		43
Schedule of Findings and Questioned Costs		45
Summary Schedule of Prior Audit Findings		47
Schedule of Expenditures of Federal Awards	D-1	48
Notes to the Schedule of Expenditures of Federal Awards		49

INDEPENDENT AUDITOR'S REPORT

To the Honorable Judge and
Members of the Commissioners Court
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, as of and for the year ended September 30, 2008, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Erath County, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2009, on our consideration of Erath County, Texas' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the other required supplementary information on pages 3 through 9 and 33 through 36, are not a required part of 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Erath County, Texas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are also presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and the combining and individual nonmajor fund financial statements 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.

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
April 30, 2009

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, 2008. Please read it in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

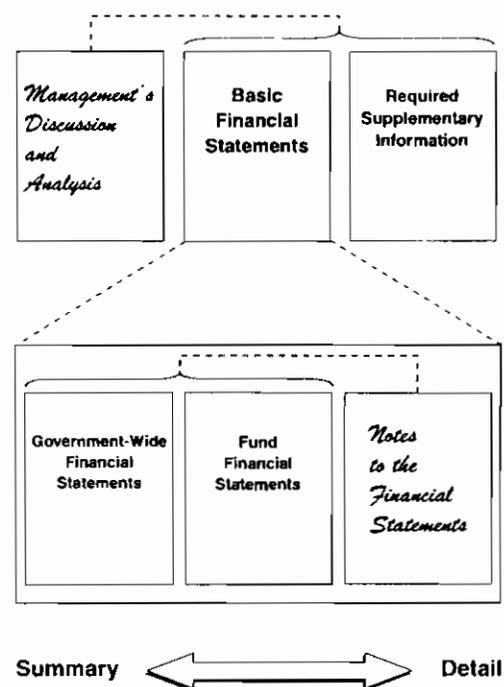
- Erath County's total combined net assets were \$25.8 million at September 30, 2008. Of this amount, \$15.3 million (unrestricted net assets) may be used to meet the County's ongoing obligations. The unrestricted net assets represent an increase of approximately \$2 million.
- During the year, the County's expenses were \$2.37 million less than the \$16.6 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$11.8 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>	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<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 10) 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 11) 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 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 13 and 15 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 33 and 34 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 19. 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 \$25.8 million at September 30, 2008. 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 38%). An additional portion of the County's net assets (approximately 3%) represent resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets (approximately 59%) may be used to meet the County's ongoing obligations to citizens and creditors.

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

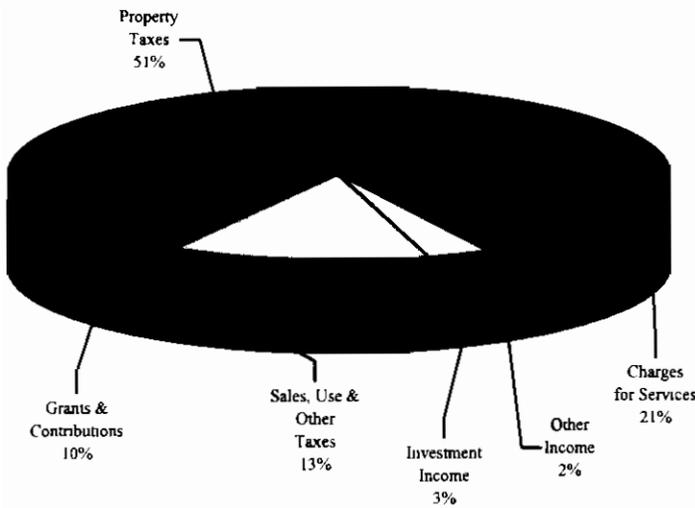
	Governmental Activities	
	2008	2007
Current and Other Assets	\$ 16,888	\$ 15,099
Capital and Non-Current Assets	9,751	9,433
Total Assets	26,639	24,532
Current Liabilities	614	881
Long Term Liabilities	192	184
Total Liabilities	806	1,065
Net Assets		
Invested in Capital Assets, net of related debt	9,751	9,433
Restricted	775	751
Unrestricted	15,307	13,283
Total Net Assets	<u>\$ 25,833</u>	<u>\$ 23,467</u>

Changes in Net Assets—Erath County's net assets increased by approximately \$2.37 million during the current fiscal year. Most of this increase represents an increase in tax valuations, high percentages of taxes collected and a robust local economy.

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

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues		
Charges for Services	\$ 3,557	\$ 3,394
Operating Grants and Contributions	1,717	609
General Revenues		
Property Taxes	8,496	7,782
Sales and Use and Other Taxes	2,201	1,931
Investment Earnings	577	736
Sales of Assets and Other	107	132
Miscellaneous	9	127
Total Revenues	<u>16,664</u>	<u>14,711</u>
Expenses:		
General Administration	2,477	2,230
Judicial	2,231	1,997
Public Safety and Law Enforcement	3,779	3,908
Road and Bridge	4,343	2,848
Health and Welfare	1,355	1,083
Conservation	113	112
Debt Service		2
Total Expenses	<u>14,298</u>	<u>12,180</u>
Increase in Net Assets	2,366	2,531
Beginning Net Assets	23,467	20,936
Ending Net Assets	<u>\$ 25,833</u>	<u>\$ 23,467</u>

**Figure A-3
SOURCES OF REVENUE FOR FISCAL YEAR 2008**



Governmental Activities—Total revenues for the fiscal year ending September 30, 2008 were \$16.7 million. Approximately 64% of the County’s revenue comes from taxes, with over 51% 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 about \$2.1 million compared to the prior year. The vast majority of this increase was due to spring floods causing damage to roads and bridges. Repair costs were reimbursed by a Federal FEMA grant to a large degree.

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 \$15.3 million. Approximately 95% of this total amount (\$14.5 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 (\$775 thousand).

The General Fund is the chief operating fund of the County. At the end of the fiscal year, fund balance of \$11.8 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 123% of total General Fund expenditures.

General Fund Budgetary Highlights—Erath County’s General Fund balance increased by \$1.6 million during the current fiscal year. This increase was caused by revenue being realized in the amount of approximately \$887 thousand above budgeted figures and approximately \$713 less money expended than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets—As of September 30, 2008, the County had invested \$18.5 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 \$1.12 million or 6.4% 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,
- Addition to Emergency Services building to accommodate ambulance services and improve fire response.

More detailed information about the County's capital assets can be found in Note 4 of this report.

Table A-3
Erath County's Capital Assets

	Governmental Activities		Percent Change
	2008	2007	
Land	\$ 578,580	\$ 578,580	0.0%
Buildings and Improvements	8,555,114	8,598,479	0.0%
Furniture and Equipment	8,860,983	8,046,192	10.1%
Construction in progress	536,276	185,061	290.0%
Total	18,530,953	17,408,312	6.4%
Total Accumulated Depreciation	8,780,122	7,974,804	10.1%
Net Capital Assets	\$ 9,750,831	\$ 9,433,509	3.4%

Long Term Debt—At year end, the County had \$193 thousand of outstanding debt which consisted of compensated absences.

More detailed information about the County's long term liabilities can be found in Notes 6, and 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The appraised value used for the 2009 budget preparation is estimated to be up \$144,889,834 or 7% from 2008.
- The tax rate established for 2009 is \$0.3915 per \$100 valuation, a decrease from \$0.4187 for 2008.
- Erath County's unemployment rate is currently 4.0%, which is an increase from the rate of 3.8% one year ago. This compares favorably to the state's average unemployment rate of 5.1% 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 2009 fiscal year.

Amounts available for appropriation in the General Fund budget are \$11,347,670, an increase of 2% over the 2008 budget of \$11,088,317. The amount appropriated from fund balance is estimated to be approximately \$739,907.

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

Budgeted General Fund expenditures are expected to rise approximately 2% to \$11,347,670. The largest increases are in non-departmental and Sheriff Administration expenditures representing various building/construction projects. The County anticipates continuing these building projects over the next few years. Near-term building projects 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 completion of the additional expansion of the Fire/Rescue and Emergency Medical Response facility. The County has added no other major new programs or initiatives to the 2009 budget.

If these estimates are realized, the County's budgetary General Fund balance is expected to decrease by about \$740,000. The decrease, however is considered appropriate since the County is essentially 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.

GOVERNMENT WIDE FINANCIAL STATEMENTS

ERATH COUNTY, TEXAS

Exhibit A-1

Statement of Net Assets

September 30, 2008

	Governmental Activities
ASSETS:	
Cash and cash equivalents	\$ 1,551,872
Investments	14,563,708
Receivables (net of allowance for uncollectibles)	
Taxes	303,999
Other	468,609
Capital assets	
Land	578,580
Buildings, net	5,174,483
Furniture and equipment, net	3,461,492
Construction in progress	<u>536,276</u>
Total assets	26,639,019
LIABILITIES:	
Accounts payable and other current liabilities	458,030
Due to other governments	116,505
Due to others	39,117
Noncurrent liabilities	
Due in more than one year	<u>192,633</u>
Total liabilities	806,285
NET ASSETS:	
Invested in capital assets, net of related debt	9,750,831
Restricted for:	
Records management	541,985
Courthouse security	233,249
Unrestricted	<u>15,306,669</u>
Total net assets	<u>\$ 25,832,734</u>

The accompanying notes are an integral part of the financial statements.

ERATH COUNTY, TEXAS
Statement of Activities
For the Year Ended September 30, 2008

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental activities			
General administration	\$ 2,477,118	\$ 1,693,031	\$ 364,003
Judicial administration	2,231,405	177,839	-
Public safety and law enforcement	3,778,540	671,078	15,082
Road and bridge	4,342,633	1,014,824	1,338,176
Health and welfare	1,355,413	-	-
Conservation	112,961	-	-
TOTAL PRIMARY GOVERNMENT	\$ 14,298,070	\$ 3,556,772	\$ 1,717,261

General Revenues:

- Property taxes
- Other taxes
- Penalty and interest
- Miscellaneous revenue
- Investment earnings
- Gain (loss) on sale of assets
- Total general revenues

CHANGE IN NET ASSETS

NET ASSETS AT BEGINNING OF YEAR

NET ASSETS AT END OF YEAR

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Total
\$ (420,084)	\$ (420,084)
(2,053,566)	(2,053,566)
(3,092,380)	(3,092,380)
(1,989,633)	(1,989,633)
(1,355,413)	(1,355,413)
(112,961)	(112,961)
<u>(9,024,037)</u>	<u>(9,024,037)</u>
8,495,911	8,495,911
2,201,099	2,201,099
130,569	130,569
8,815	8,815
577,446	577,446
<u>(23,928)</u>	<u>(23,928)</u>
<u>11,389,912</u>	<u>11,389,912</u>
2,365,874	2,365,874
<u>23,466,860</u>	<u>23,466,860</u>
<u>\$ 25,832,734</u>	<u>\$ 25,832,734</u>

ERATH COUNTY, TEXAS

Balance Sheet

Governmental Funds

September 30, 2008

	General Fund	Road and Bridge Fund
ASSETS		
Cash and cash equivalents	\$ 678,611	\$ 435,775
Investments	11,446,295	1,325,706
Receivables (net of allowances for uncollectibles)		
Taxes	206,071	79,974
Other	105,449	49,189
Total assets	\$ 12,436,426	\$ 1,890,644
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and other current liabilities	\$ 207,045	\$ 171,279
Wages and salaries payable	40,085	10,714
Due to other governments	109,797	-
Due to others	39,117	-
Deferred revenues	206,069	79,974
Total liabilities	602,113	261,967
Fund balances:		
Reserved:		
Records management	-	-
Courthouse security	-	-
Unreserved:		
General fund	11,834,313	-
Special revenue funds	-	1,628,677
Total fund balances	11,834,313	1,628,677
TOTAL LIABILITIES AND FUND BALANCES	\$ 12,436,426	\$ 1,890,644

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 400,143	\$ 1,514,529
1,420,820	14,192,821
17,954	303,999
<u>2,592</u>	<u>157,230</u>
<u>\$ 1,841,509</u>	<u>\$ 16,168,579</u>
\$ 27,864	\$ 406,188
316	51,115
6,708	116,505
-	39,117
<u>17,954</u>	<u>303,997</u>
52,842	916,922
541,985	541,985
233,249	233,249
-	11,834,313
<u>1,013,434</u>	<u>2,642,111</u>
<u>1,788,668</u>	<u>15,251,658</u>
<u>\$ 1,841,509</u>	<u>\$ 16,168,579</u>

ERATH COUNTY, TEXAS
 Reconciliation of the Balance Sheet of Governmental Funds
 To The Statement of Net Assets
 September 30, 2008

Exhibit A-4

Total Fund Balances - Governmental Fund Balance Sheet	\$	15,251,658
<p>Amounts reported for governmental activities in the statement of net assets (A-1) are different because:</p>		
<p>Internal service funds are used by management to account for the self-insurance fund of the government. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect is an increase to net assets.</p>		
		407,846
<p>Beginning of year capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.</p>		
Governmental capital assets	\$ 17,408,313	
Accumulated Depreciation	<u>(7,974,804)</u>	9,433,509
<p>Beginning of year long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
Compensated absences		(183,643)
<p>Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements.</p>		
		1,196,471
<p>The 2008 depreciation expense increases accumulated depreciation. The net affect of the current year depreciation is to decrease net assets.</p>		
		(879,149)
<p>Various other reclassifications and eliminations are necessary to convert from modified accrual basis of accounting to accrual basis of accounting.</p>		
Office fees receivable	\$ 311,035	
Deferred revenue	303,997	
Change in compensated absences payable	<u>(8,990)</u>	<u>606,042</u>
Net Assets of Governmental Activities- Statement of Net Assets	\$	<u><u>25,832,734</u></u>

The accompanying notes are an integral part of the financial statements.

ERATH COUNTY, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2008

	General Fund	Road and Bridge Fund
REVENUES		
Taxes:		
Property tax	\$ 5,750,336	\$ 2,224,940
Other taxes	2,201,099	-
Penalty and interest on taxes	89,010	34,027
Licenses and permits	31,066	810,275
Intergovernmental revenue and grants	379,083	1,272,962
Charges for services	42,359	-
Fines	2,197,704	57,356
Investment earnings	430,250	81,753
Miscellaneous	111,843	141,188
Total revenues	11,232,750	4,622,501
EXPENDITURES		
Current:		
General administration	2,435,104	-
Judicial administration	1,971,746	-
Public safety and law enforcement	3,949,217	-
Road and bridge	-	4,595,730
Health and welfare	1,147,535	-
Conservation	112,961	-
Total expenditures	9,616,563	4,595,730
Excess of revenue over expenditures	1,616,187	26,771
OTHER FINANCING SOURCES (USES)		
Sale of real and personal property	5,041	44,228
Total other financing sources (uses)	5,041	44,228
NET CHANGE IN FUND BALANCES	1,621,228	70,999
FUND BALANCES AT BEGINNING OF YEAR	10,213,085	1,557,678
FUND BALANCES AT END OF YEAR	\$ 11,834,313	\$ 1,628,677

The accompanying notes are an integral part of the financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 501,116	\$ 8,476,392
-	2,201,099
7,532	130,569
-	841,341
-	1,652,045
-	42,359
209,975	2,465,035
52,842	564,845
2,544	255,575
<u>774,009</u>	<u>16,629,260</u>
50,049	2,485,153
179,791	2,151,537
25,962	3,975,179
-	4,595,730
207,878	1,355,413
-	112,961
<u>463,680</u>	<u>14,675,973</u>
<u>310,329</u>	<u>1,953,287</u>
-	49,269
-	49,269
310,329	2,002,556
<u>1,478,339</u>	<u>13,249,102</u>
<u>\$ 1,788,668</u>	<u>\$ 15,251,658</u>

ERATH COUNTY, TEXAS

Exhibit A-6

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2008

Net Change in Fund Balances -Total Government Funds		\$	2,002,556
<p>Amounts reported for governmental activities in the statement of activities (A-5) are different because:</p>			
<p>Internal service funds are used by management to charge the costs of self-insurance in individual funds. The change in net assets of the internal service funds are included in governmental activities in the statement of activities. The net effect of this consolidation is to increase net assets.</p>			
			8,973
<p>Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements.</p>			
			1,196,471
<p>Depreciation is not recognized as an expenditure 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.</p>			
			(879,149)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting.</p>			
Office fines and fees revenue	\$	26,493	
Deferred tax revenues		19,521	
Compensated absences		(8,990)	
			<u>37,024</u>
Change in Net Assets of Governmental Activities - Statement of Activities		\$	<u><u>2,365,874</u></u>

The accompanying notes are an integral part of the financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

ERATH COUNTY, TEXAS
Statement of Net Assets
Proprietary Funds
September 30, 2008

Exhibit A-7

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 36,834
Investments	370,887
Receivables (net)	
Other	<u>345</u>
Total assets	<u>\$ 408,066</u>
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	\$ 4
Wages and salaries payable	<u>216</u>
Total liabilities	220
Net assets	
Unrestricted	<u>407,846</u>
Total net assets	<u>407,846</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 408,066</u>

The accompanying notes are an integral part of the financial statements.

ERATH COUNTY, TEXAS
Statement of Revenues,
Expenses and Changes in Fund Net Assets - Proprietary Funds
For the Year Ended September 30, 2008

Exhibit A-8

	Governmental Activities <u>Internal Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ <u>24,318</u>
Total operating revenues	24,318
OPERATING EXPENSES	
Personnel services - salaries and wages	<u>27,946</u>
Total operating expenses	<u>27,946</u>
OPERATING INCOME (LOSS)	(3,628)
NONOPERATING REVENUES	
Investment earnings	<u>12,601</u>
Total nonoperating revenues	<u>12,601</u>
CHANGE IN NET ASSETS	8,973
NET ASSETS AT BEGINNING OF YEAR	<u>398,873</u>
NET ASSETS AT END OF YEAR	\$ <u><u>407,846</u></u>

The accompanying notes are an integral part of the financial statements.

ERATH COUNTY, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2008

Exhibit A-9

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 23,973
Cash payments to employees for services	<u>(28,701)</u>
Net cash provided (used) by operating activities	<u>(4,728)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	12,601
Purchase of investments	<u>(11,817)</u>
Net cash provided by investing activities	<u>784</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,944)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>40,778</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 36,834</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (3,628)
Net change in:	
Accounts receivable	(345)
Claims payable	<u>(755)</u>
Total adjustments	<u>(1,100)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (4,728)</u>

The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

ERATH COUNTY, TEXAS
Statement of Fiduciary Net Assets - Fiduciary Funds
September 30, 2008

Exhibit A-10

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,830,970</u>
TOTAL ASSETS	\$ <u><u>1,830,970</u></u>
LIABILITIES	
Due to others	\$ <u>1,830,970</u>
TOTAL LIABILITIES	\$ <u><u>1,830,970</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Erath County, Texas (County) included in the accompanying basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the County's basic financial statements.

A. Reporting Entity

Erath County, Texas is a state mandated governmental unit of the State of Texas. The Commissioners' Court, which is made up of four commissioners and the County Judge, is the general governing body of the County in accordance with Article 5, Paragraph 18 of the Texas Constitution. The County provides the following services as authorized by the statutes of the State of Texas: general administration, judicial (courts, juries, etc), legal (district attorney, county attorney, etc), public safety (sheriff, jail, etc), transportation, facilities, and public service (e.g. rural fire protection and emergency management).

The County's basic financial statements include the accounts of all its operations. The County evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the County's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

1. the organization is legally separate (can sue and be sued in its name)
2. the County holds the corporate powers of the organization
3. the County appoints a voting majority of the organization's board
4. the County is able to impose its will on the organization
5. the organization has the potential to impose a financial benefit/burden on the County
6. there is fiscal dependency by the organization on the County
7. the exclusion of the organization would result in misleading or incomplete financial statements

The County also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the County to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the County, its component units or its constituents; 2) The County or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the County.

Based on these criteria, the County has no component units. Additionally, the County is not a component unit of any other reporting entity as defined by the GASB Statement.

B. Government-wide Fund Financial Statements

The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

B. Government-wide Fund Financial Statements, continued

The statement of activities presents a comparison between direct 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 programs 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.

C. Fund Financial Statements

The fund financial statements provide information about the County's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary funds operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. The County applies only those Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989 in the accounting and reporting of its proprietary funds.

The County reports the following major governmental funds:

General Fund. This is the County's primary operating fund. It accounts for all financial resources of the County 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.

In addition, the County reports the following fund types:

Special Revenue Funds. These 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.

Proprietary Fund Types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the County. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the County's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Fiduciary Fund Types:

Agency Funds: These funds are used to report funds of the County's fees offices and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

C. Fund Financial Statements, continued

Fees are generated and retained by the fee offices until notification is received to disburse funds to the proper individual or entity. Fees generated include fines, restitution, bail bond deposits, and inmate trust funds.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support County programs, these funds are not included in the government-wide statements.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenue and sales tax receipts are considered measurable and available when collected by the respective intermediary agency and recognized as revenue at that time. Miscellaneous revenues are recorded as revenue when received because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the County incurs expenditures or expenses for which both restricted and unrestricted resources may be used, it is the County's policy to use restricted resources first, then unrestricted resources.

E. Assets, Liabilities, and Net Assets or Equity

- Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

- Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

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

Property tax revenues are considered available 1) when they become due or past due and receivable within the current period and 2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the County is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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.

As of October 1, 1981, the appraisal of property within the County is the responsibility of the Erath County Appraisal District. The Erath County Tax Assessor-Collector assesses and collects the County's property taxes. The Appraisal District 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 adjusted 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, 2008 to finance maintenance and operations of the County and Road and Bridge were \$.3082 and \$.1105 per \$100 valuation, respectively, for a total of \$.4187 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 the rates adopted for the year of the levy. Allowances for uncollectibles within funds are based upon historical experience in collecting property taxes.

- Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. In the fund financial statements, they are offset by a reservation of fund balance which indicates they do not represent "available spendable resources".

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

- Capital Assets

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are capitalized in the government-wide statement of net assets.

Donated capital assets are recorded at their estimated fair value at the date of the donation.

The County capitalizes all capital assets, which have a cost of \$5,000 or more and a useful life in excess of two years. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	30-40 years
Vehicles and Heavy Equipment	3-15 years

- Receivables and Payable Balances

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the County. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue.

There are no significant receivables which are not scheduled for collection within one year of year end.

- Compensated Absences

A liability for unused vacation and comp time for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

1. Leave or compensation is attributable to services already rendered
2. Leave or compensation is not contingent on specific event (such as illness)

Per GASB Interpretation No. 6 liabilities for compensated absences are recognized in the fund statements to extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued as long-term debt in the government-wide statements.

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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

- Compensated Absences, continued

Ten percent of sick pay is paid upon termination. At September 30, 2008 the value of accumulated vacation benefits was \$143,881 and the value of accumulated sick pay benefits was approximately \$48,752, for a total of \$192,633.

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

- Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other inter-fund, except quasi-external transactions and reimbursements, transactions are treated as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers. Transfers in and Transfers out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

- Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

- Long-term Obligations

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

- Deferred Revenues

The County reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in current period. Deferred revenues also arise when resources are received by the County before it has legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

- Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties of use for a specific purpose. Fund reservations include encumbrances, debt service, inventories and prepaid expenses.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

- Other Accounting Policies

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.

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:

Records Management	\$ 541,985
Courthouse Security	<u>233,249</u>
Total Reserved Fund Balance	\$ <u>775,234</u>

NOTE 2: DEPOSITS AND INVESTMENTS

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank approved pledged securities 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.

A. Cash Deposits

At September 30, 2008, the County's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the County's bank in the County's name.

B. Investments

The County is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written, primarily emphasize safety of principal and liquidity, address investment diversification, yield, and maturity and the quality and capability of investment management, include a list of the types of authorized investments in which the investing entity's funds may be invested and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the County adhered to the requirements of the Act. Additionally, investment practices of the County were in accordance with local policies.

The Act determines the types of investments which are allowable for the County. These include, with certain restrictions, obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, certificates of deposit, certain municipal securities, money market savings accounts, repurchasing agreements, bankers acceptance, mutual funds, investment pools, guaranteed investment contracts, and common trust funds.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 2: DEPOSITS AND INVESTMENTS, *continued*

Investments at September 30, 2008 consisted of the following:

Certificates of Deposit	\$ 2,500,000
Texpool	<u>12,063,708</u>
Total Investments	\$ <u>14,563,708</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 approximates 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.

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

The County has adopted a deposit and investment policy which addresses 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, 2008 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.

Concentration of 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, 2008, TexPool's investment credit quality rating was AAAm (Standard's & Poor's).

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 3: RECEIVABLES

Receivables at year end, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental			Proprietary
	General Fund	Road & Bridge Fund	Other Governmental Funds	Internal Service Funds
Receivables				
Taxes	\$ 336,255	\$ 130,497	\$ 29,296	\$ -
Other	105,449	49,189	2,591	345
Total gross receivables	<u>441,704</u>	<u>179,686</u>	<u>31,887</u>	<u>345</u>
Less: Allowance for uncollectibles				
Taxes	<u>(130,184)</u>	<u>(50,523)</u>	<u>(11,342)</u>	<u>-</u>
Net total receivables	<u>\$ 311,520</u>	<u>\$ 129,163</u>	<u>\$ 20,545</u>	<u>\$ 345</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 578,580	\$ -	\$ -	\$ 578,580
Construction in Progress	185,061	351,215	-	536,276
Total capital assets not being depreciated	<u>763,641</u>	<u>351,215</u>	<u>-</u>	<u>1,114,856</u>
Capital assets being depreciated				
Buildings and improvements	8,598,479	-	(43,365)	8,555,114
Furniture and Equipment	8,046,193	918,453	(103,663)	8,860,983
Total capital assets being depreciated	<u>16,644,672</u>	<u>918,453</u>	<u>(147,028)</u>	<u>17,416,097</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,194,801)	(209,495)	23,665	(3,380,631)
Furniture and Equipment	<u>(4,780,003)</u>	<u>(669,654)</u>	<u>50,166</u>	<u>(5,399,491)</u>
Total accumulated depreciation	<u>(7,974,804)</u>	<u>(879,149)</u>	<u>73,831</u>	<u>(8,780,122)</u>
Total capital assets being depreciated, net	<u>8,669,868</u>	<u>39,304</u>	<u>(73,197)</u>	<u>8,635,975</u>
Governmental activities capital assets, net	<u>\$ 9,433,509</u>	<u>\$ 390,519</u>	<u>\$ (73,197)</u>	<u>\$ 9,750,831</u>

Infrastructure assets (roads and bridges) acquired prior to fiscal year 2004 are not included in Erath County's capital assets.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 4: CAPITAL ASSETS, *continued*

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

General Government	\$	124,981
Judicial Administration		79,868
Public Safety		282,894
Road & Bridge		<u>391,406</u>
 Total Depreciation Expense	 \$	 <u>879,149</u>

NOTE 5: DEFERRED REVENUE

Deferred revenue at year-end in the governmental funds balance sheet consisted of the following:

	<u>General Fund</u>	<u>Road and Bridge Fund</u>	<u>Other Funds</u>	<u>Total</u>
Net Tax Revenue	\$ <u>206,069</u>	\$ <u>79,974</u>	\$ <u>17,954</u>	\$ <u>303,997</u>

NOTE 6: LONG-TERM OBLIGATIONS

A. Long-Term Obligation Activity

Long-Term Obligations include compensated absences. Changes in long-term obligations for the period ended September 30, 2008, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ <u>183,643</u>	\$ <u>8,990</u>	\$ <u>-</u>	\$ <u>192,633</u>	\$ <u>-</u>
Total governmental activities	\$ <u>183,643</u>	\$ <u>8,990</u>	\$ <u>-</u>	\$ <u>192,633</u>	\$ <u>-</u>

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 7: COMMITMENTS UNDER OPERATING LEASES

The County has entered into lease agreements with Canon Financial Services, Inc. for photocopiers to be used in the County's various offices. Commitments under these lease agreements provide for minimum future lease payments as of September 30, 2008, as follows:

Year Ending September 30,		
2009	\$	12,103
2010		11,867
2011		10,691
2012		5,376
2013		-
Total Minimum Future Lease Obligations	\$	<u>40,037</u>
Rental Expenditures in 2008	\$	<u>12,103</u>

NOTE 8: 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.

A. Health Care

During the year ended September 30, 2008, 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 contractual agreement.

NOTE 9: PENSION PLAN

A. Plan Description

Erath County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCERS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 574 nontraditional defined benefit pension plans. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 9: PENSION PLAN, *continued*

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

Benefit amounts are determined by the sum of the employee's contributions, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the County 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 contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

B. Funding Policy

The County has elected the annually determined contribution rate (Variable-rate) plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the County based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the County is actuarially determined annually. The County contributed using the actuarially determined rate of 8.94% for the months of the accounting year 2007, and 8.99% for the months of the accounting year 2008.

The contribution rate payable by the employee members for fiscal year 2008 is the rate of 7.00% as adopted by the governing body of the County. The employee contribution rate and the employer contribution rate may be changed by the governing body of the County within the options available in the TCDRS Act.

C. Annual Pension Cost

For the County's accounting year ended September 30, 2008, the annual pension cost for the TCDRS plan for its employees was \$521,919 and actual contributions were \$521,919.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2005, and December 31, 2006, the basis for determining the contribution rates for calendar years 2007 and 2008. The December 31, 2007 actuarial valuation is the most recent valuation.

Actuarial Valuation Information:

Actuarial valuation date	12/31/2005	12/31/2006	12/31/2007
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	20 years	15 years	15 years
Asset valuation method	Long-term appreciation with adjustment	SAF: 10 years Smoothed value ESF: Fund value	SAF: 10 years Smoothed value ESF: Fund value

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2008

NOTE 9: PENSION PLAN, *continued*

Actuarial Assumptions:

	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.30%	5.30%	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, Texas

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/2006	\$ 390,212	100%	-
9/30/2007	464,116	100%	-
9/30/2008	521,919	100%	-

NOTE 10: COMMITMENTS AND CONTINGENCIES

Contingencies

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds or any money received may be required and collectability of any related receivable at September 30, 2008 may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grant; therefore no provision has been recorded in the accompanying financial statements for such contingencies.

Litigation

The County Attorney and other legal counsel paid by the County have indicated that there are no lawsuits filed and pending against the County that will result in a material effect on the County's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

ERATH COUNTY, TEXAS
 General Fund
 Budgetary Comparison Schedule
 For The Year Ended September 30, 2008

Exhibit B-1

	2008			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES:				
Taxes:				
Property tax	\$ 5,911,551	\$ 5,655,000	\$ 5,750,336	\$ 95,336
Other taxes	1,450,000	1,500,000	2,201,099	701,099
Penalty and interest on taxes	68,000	58,500	89,010	30,510
Licenses and permits	20,000	22,446	31,066	8,620
Intergovernmental revenue and grants	335,640	331,465	379,083	47,618
Charges for services	43,400	34,800	42,359	7,559
Fines	1,945,500	1,928,484	2,197,704	269,220
Investment earnings	426,000	401,000	430,250	29,250
Miscellaneous	102,486	130,796	111,843	(18,953)
Total revenues	10,302,577	10,062,491	11,232,750	1,170,259
EXPENDITURES:				
Current:				
General administration	3,107,714	2,457,747	2,435,104	22,643
Judicial administration	2,453,691	1,862,600	1,971,746	(109,146)
Public safety and law enforcement	4,193,447	3,898,300	3,949,217	(50,917)
Health and welfare	1,197,127	980,967	1,147,535	(166,568)
Conservation	136,338	122,970	112,961	10,009
Total expenditures	11,088,317	9,322,584	9,616,563	(293,979)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(785,740)	739,907	1,616,187	876,280
OTHER FINANCING SOURCES				
Sale of real and personal property	-	-	5,041	5,041
Total other financing sources (uses)	-	-	5,041	5,041
NET CHANGE IN FUND BALANCES	(785,740)	739,907	1,621,228	881,321
FUND BALANCES AT BEGINNING OF YEAR	10,213,085	10,213,085	10,213,085	-
FUND BALANCES AT END OF YEAR	\$ 9,427,345	\$ 10,952,992	\$ 11,834,313	\$ 881,321

ERATH COUNTY, TEXAS
Road and Bridge
Budgetary Comparison Schedule
For the Year Ended September 30, 2008

Exhibit B-2

	2008			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES:				
Taxes:				
Property tax	\$ 2,277,903	\$ 2,159,391	\$ 2,224,940	\$ 65,549
Penalty and interest on taxes	21,200	21,840	34,027	12,187
Licenses and permits	867,000	800,000	810,275	10,275
Intergovernmental revenue and grants	33,900	46,989	1,272,962	1,225,973
Fines	20,300	35,100	57,356	22,256
Investment earnings	77,800	70,795	81,753	10,958
Miscellaneous	15,000	86,584	141,188	54,604
Total revenues	<u>3,313,103</u>	<u>3,220,699</u>	<u>4,622,501</u>	<u>1,401,802</u>
EXPENDITURES:				
Current:				
Road and bridge	<u>4,411,878</u>	<u>3,554,341</u>	<u>4,595,730</u>	<u>(1,041,389)</u>
Total expenditures	<u>4,411,878</u>	<u>3,554,341</u>	<u>4,595,730</u>	<u>(1,041,389)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(1,098,775)</u>	<u>(333,642)</u>	<u>26,771</u>	<u>360,413</u>
OTHER FINANCING SOURCES (USES)				
Sale of real and personal property	-	-	44,228	44,228
Transfers in	765,755	113,642	280,000	166,358
Transfers out	<u>(313,000)</u>	<u>(220,000)</u>	<u>(280,000)</u>	<u>(60,000)</u>
Total other financing sources (uses)	<u>452,755</u>	<u>(106,358)</u>	<u>44,228</u>	<u>150,586</u>
NET CHANGE IN FUND BALANCES	(646,020)	(440,000)	70,999	510,999
FUND BALANCES AT BEGINNING OF YEAR	<u>1,557,678</u>	<u>1,557,678</u>	<u>1,557,678</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 911,658</u>	<u>\$ 1,117,678</u>	<u>\$ 1,628,677</u>	<u>\$ 510,999</u>

ERATH COUNTY, TEXAS
 Required Supplementary Information
 Schedule of Funding Progress, Texas County and District Retirement System
 For the Year Ended September 30, 2008

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2004	\$ 8,420,161	\$ 9,633,917	\$ 1,213,756	87.40%	\$ 4,462,934	27.20%
12/31/2005	9,627,448	10,992,345	1,364,897	87.58%	4,717,296	28.93%
12/31/2006	11,159,359	12,549,015	1,389,656	88.93%	5,555,465	25.01%
12/31/2007	12,604,898	14,081,617	1,476,719	89.51%	5,898,706	25.03%

ERATH COUNTY, TEXAS
Notes to Required Supplementary Information
For the Year Ended September 30, 2008

NOTE 1: BUDGETARY INFORMATION

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

- 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.
- Public hearings are conducted at the Erath County Courthouse to obtain taxpayer comments.
- Prior to October 1, the budget is legally enacted through adoption of an order by the Commissioners' Court.
- 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.
- 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.
- Expenditures in excess of appropriations are required by state statutes to be reported down to the department classification.
- The budgeted amounts presented in these statements are as originally adopted, or as amended by, the Commissioners' Court during the year ended September 30, 2008.

NEGATIVE BUDGET VARIANCES

The General Fund had a negative budget to actual variance in judicial administration, public safety and law enforcement, and health and welfare expenditures for the year ended September 30, 2008.

The Road and Bridge Fund had a negative budget to actual variance in total Road and Bridge expenditures for the year ended September 30, 2008.

COMBINING STATEMENTS

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2008

	<u>45</u>	<u>55</u>	<u>71</u>	<u>80</u>
	Indigent Health Fund	Law Library	Courthouse Security	Unclaimed Property Fund
ASSETS				
Cash and cash equivalents	\$ 84,143	\$ 8,668	\$ 51,235	\$ 7,631
Investments	775,513	-	189,736	-
Receivables (net of allowances for uncollectibles)				
Taxes	17,954	-	-	-
Other	<u>2,122</u>	<u>-</u>	<u>284</u>	<u>-</u>
Total assets	<u>\$ 879,732</u>	<u>\$ 8,668</u>	<u>\$ 241,255</u>	<u>\$ 7,631</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and other current liabilities	\$ 10,037	\$ 6,050	\$ 8,006	\$ -
Wages and salaries payable	-	-	-	-
Due to other governments	-	-	-	6,708
Deferred revenues	<u>17,954</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	27,991	6,050	8,006	6,708
 Fund balance				
Reserved:				
Records management	-	-	-	-
Courthouse security	-	-	233,249	-
Unreserved and undesignated:				
Special Revenue Funds	<u>851,742</u>	<u>2,618</u>	<u>-</u>	<u>923</u>
Total fund balance	<u>851,742</u>	<u>2,618</u>	<u>233,249</u>	<u>923</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 879,732</u>	<u>\$ 8,668</u>	<u>\$ 241,255</u>	<u>\$ 7,631</u>

86 County Clerk Records Management	87 Records Preservation Fund	90 County Attorney Hot Check	91 District Attorney Hot Check	92 District Attorney Bond Forfeiture	93 Sheriff Forfeiture Fund	88 District Clerk Records Management	Total Nonmajor Governmental Funds
\$ 48,879	\$ 40,965	\$ 29,886	\$ 7,008	\$ 62,876	\$ 58,512	\$ 340	\$ 400,143
375,176	80,395	-	-	-	-	-	1,420,820
-	-	-	-	-	-	-	17,954
-	173	-	-	-	-	13	2,592
<u>\$ 424,055</u>	<u>\$ 121,533</u>	<u>\$ 29,886</u>	<u>\$ 7,008</u>	<u>\$ 62,876</u>	<u>\$ 58,512</u>	<u>\$ 353</u>	<u>\$ 1,841,509</u>
\$ 3,676	\$ -	\$ 95	\$ -	\$ -	\$ -	\$ -	\$ 27,864
280	-	36	-	-	-	-	316
-	-	-	-	-	-	-	6,708
-	-	-	-	-	-	-	17,954
3,956	-	131	-	-	-	-	52,842
420,099	121,533	-	-	-	-	353	541,985
-	-	-	-	-	-	-	233,249
-	-	29,755	7,008	62,876	58,512	-	1,013,434
<u>420,099</u>	<u>121,533</u>	<u>29,755</u>	<u>7,008</u>	<u>62,876</u>	<u>58,512</u>	<u>353</u>	<u>1,788,668</u>
<u>\$ 424,055</u>	<u>\$ 121,533</u>	<u>\$ 29,886</u>	<u>\$ 7,008</u>	<u>\$ 62,876</u>	<u>\$ 58,512</u>	<u>\$ 353</u>	<u>\$ 1,841,509</u>

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2008

	45 Indigent Health Fund	55 Law Library	71 Courthouse Security	80 Unclaimed Property Fund	86 County Clerk Records Management
REVENUES					
Taxes:					
Property taxes	\$ 501,116	\$ -	\$ -	\$ -	\$ -
Penalty and interest on taxes	7,532	-	-	-	-
Fines	-	22,000	30,481	-	105,009
Investment earnings	23,099	324	8,097	175	13,131
Miscellaneous	1,809	-	-	-	-
Total revenues	533,556	22,324	38,578	175	118,140
EXPENDITURES					
Current:					
General administration	-	-	50,049	-	-
Judicial administration	-	33,284	-	-	96,230
Public safety and law enforcement	-	-	-	-	-
Health and welfare	207,878	-	-	-	-
Total expenditures	207,878	33,284	50,049	-	96,230
EXCESS (DEFICIT) OF					
REVENUES OVER EXPENDITURES	325,678	(10,960)	(11,471)	175	21,910
NET CHANGE IN FUND BALANCE	325,678	(10,960)	(11,471)	175	21,910
FUND BALANCES AT					
BEGINNING OF YEAR	526,064	13,578	244,720	748	398,189
FUND BALANCES AT END OF YEAR	\$ 851,742	\$ 2,618	\$ 233,249	\$ 923	\$ 420,099

87 Records Preservation Fund	90 County Attorney Hot Check	91 District Attorney Hot Check	92 District Attorney Bond Forfeiture	93 Sheriff Forfeiture Fund	88 District Clerk Records Management	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 501,116
-	-	-	-	-	-	7,532
19,638	32,136	146	367	-	198	209,975
3,609	392	192	2,104	1,719	-	52,842
-	-	-	-	735	-	2,544
<u>23,247</u>	<u>32,528</u>	<u>338</u>	<u>2,471</u>	<u>2,454</u>	<u>198</u>	<u>774,009</u>
-	-	-	-	-	-	50,049
9,298	11,354	965	28,660	-	-	179,791
-	-	-	-	25,962	-	25,962
-	-	-	-	-	-	207,878
<u>9,298</u>	<u>11,354</u>	<u>965</u>	<u>28,660</u>	<u>25,962</u>		<u>463,680</u>
<u>13,949</u>	<u>21,174</u>	<u>(627)</u>	<u>(26,189)</u>	<u>(23,508)</u>	<u>198</u>	<u>310,329</u>
13,949	21,174	(627)	(26,189)	(23,508)	198	310,329
<u>107,584</u>	<u>8,581</u>	<u>7,635</u>	<u>89,065</u>	<u>82,020</u>	<u>155</u>	<u>1,478,339</u>
<u>\$ 121,533</u>	<u>\$ 29,755</u>	<u>\$ 7,008</u>	<u>\$ 62,876</u>	<u>\$ 58,512</u>	<u>\$ 353</u>	<u>\$ 1,788,668</u>

ERATH COUNTY, TEXAS
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 September 30, 2008

	<u>JP #2</u>	<u>Sales Tax</u>	<u>District Clerk Erath County Trust</u>	<u>Auto Fund</u>	<u>CA Escrow</u>
ASSETS:					
Cash and cash equivalents	\$ 10,006	\$ 324,195	\$ 137,993	\$ 48,169	\$ 29,293
TOTAL ASSETS	<u>\$ 10,006</u>	<u>\$ 324,195</u>	<u>\$ 137,993</u>	<u>\$ 48,169</u>	<u>\$ 29,293</u>
LIABILITIES:					
Due to others	\$ 10,006	\$ 324,195	\$ 137,993	\$ 48,169	\$ 29,293
TOTAL LIABILITIES	<u>\$ 10,006</u>	<u>\$ 324,195</u>	<u>\$ 137,993</u>	<u>\$ 48,169</u>	<u>\$ 29,293</u>

<u>Sheriff's Office Special</u>	<u>Jail Commissary</u>	<u>Jale Inmate Funds</u>	<u>Motor Vehicle Escrow</u>	<u>County Clerk Registry</u>	<u>Court Bonds Registry</u>	<u>266th District Registry</u>
\$ <u>5,028</u>	\$ <u>9,590</u>	\$ <u>3,861</u>	\$ <u>117,831</u>	\$ <u>59,456</u>	\$ <u>80,153</u>	\$ <u>90,500</u>
\$ <u>5,028</u>	\$ <u>9,590</u>	\$ <u>3,861</u>	\$ <u>117,831</u>	\$ <u>59,456</u>	\$ <u>80,153</u>	\$ <u>90,500</u>
\$ <u>5,028</u>	\$ <u>9,590</u>	\$ <u>3,861</u>	\$ <u>117,831</u>	\$ <u>59,456</u>	\$ <u>80,153</u>	\$ <u>90,500</u>
\$ <u>5,028</u>	\$ <u>9,590</u>	\$ <u>3,861</u>	\$ <u>117,831</u>	\$ <u>59,456</u>	\$ <u>80,153</u>	\$ <u>90,500</u>

ERATH COUNTY, TEXAS
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 September 30, 2008

	Velma Evans Herring Estate Registry of the Court	Joshua Michael Hansen Registry of the Court	Tim Lynn Torre Jr Registry of the Court	County Clerk Court Trust	Cory Stephens Registry of the Court	District Clerk CV 24105
ASSETS:						
Cash and cash equivalents	\$ 6,082	\$ 40,839	\$ 11,870	\$ 729,387	\$ 22,006	\$ 48,890
TOTAL ASSETS	<u>\$ 6,082</u>	<u>\$ 40,839</u>	<u>\$ 11,870</u>	<u>\$ 729,387</u>	<u>\$ 22,006</u>	<u>\$ 48,890</u>
LIABILITIES:						
Due to others	\$ 6,082	\$ 40,839	\$ 11,870	\$ 729,387	\$ 22,006	\$ 48,890
TOTAL LIABILITIES	<u>\$ 6,082</u>	<u>\$ 40,839</u>	<u>\$ 11,870</u>	<u>\$ 729,387</u>	<u>\$ 22,006</u>	<u>\$ 48,890</u>

District Clerk CV 27879	District Clerk CV 28175	Matthe Skaggs Registry of the Court	Taylor Mauppin Registry of the Court	Brady Mauppin Registry of the Court	Shelby Cannon Registry of the Court	Steven Austin Registry of the Court	Total Agency Funds
\$ 2,158	\$ 2,378	\$ 19,191	\$ 2,589	\$ 3,673	\$ 24,189	\$ 1,643	\$ 1,830,970
<u>2,158</u>	<u>2,378</u>	<u>19,191</u>	<u>2,589</u>	<u>3,673</u>	<u>24,189</u>	<u>1,643</u>	<u>\$ 1,830,970</u>
\$ 2,158	2,378	19,191	\$ 2,589	\$ 3,673	\$ 24,189	\$ 1,643	\$ 1,830,970
<u>\$ 2,158</u>	<u>2,378</u>	<u>19,191</u>	<u>\$ 2,589</u>	<u>\$ 3,673</u>	<u>\$ 24,189</u>	<u>\$ 1,643</u>	<u>\$ 1,830,970</u>

SINGLE AUDIT SECTION

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Erath County, Texas, as of and for the year ended September 30, 2008, and have issued our report thereon dated April 30, 2009. 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 Erath County, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Erath County, Texas, in a separate letter dated April 30, 2009.

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

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
April 30, 2009

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

The Honorable Judge
Members of the Commissioner's Court
Erath County, Texas:

Compliance

We have audited the compliance of Erath County, Texas with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Erath County, Texas' 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 Erath County, Texas' management. Our responsibility is to express an opinion on Erath County, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Office of Management and Budget (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 Erath County, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Erath County, Texas' compliance with those requirements.

In our opinion, Erath County, Texas, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2008-1.

Internal Control Over Compliance

The management of Erath County, Texas, 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 Erath County, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Erath County, Texas' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Erath County, Texas' response and, accordingly, we express no opinion on it.

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

Davis Kinard & Co, PC

DAVIS KINARD & CO, PC

Abilene, Texas
April 30, 2009

ERATH COUNTY, TEXAS
Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

A. Summary of Auditor's Results

Type of Report on Financial Statements	Unqualified Opinion
Significant Deficiencies	Yes – See Finding 2008-1
Material Weaknesses involving Significant Deficiencies	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 Circular A-133	Yes – See Finding 2008-1

Major Federal Programs:

Grantor Agency:	U.S Department of Homeland Security passed through the Governor's Division of Emergency Management
Program:	Federal Emergency Management Agency- Disaster Grants
CFDA No.	97.036

Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
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Low Risk Auditee	The County was not classified as a low-risk auditee in the context of OMB Circular A-133.
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ERATH COUNTY, TEXAS
Schedule of Findings and Questioned Costs
Year Ended September 30, 2008

B. Findings Required to be Reported in Accordance with *Government Auditing Standards*

None

C. Findings and Questioned Costs for Federal Awards Required to be Reported Under OMB Circular A-133

Finding #2008-1 U.S. Department of Homeland Security - Compliance
CFDA 97.036 U.S. Department of Homeland Security: Federal Emergency Management Agency-Disaster Grants

Condition: Single audit procedures revealed that the required regulatory financial reporting to FEMA was not performed on a timely basis. Erath County personnel could not provide documentation that the Federal Cash Transactions Report had been filed for the fiscal year ending 9/30/2008 in a timely manner.

Criteria: The Federal agency requires Federal Cash Transactions Reports be submitted by each recipient. These reports will be used by the Federal agency to monitor cash advanced to grantees and to obtain disbursement or outlay information for each grant from grantees

Effect: Erath County is not in compliance with the reporting compliance requirements of the FEMA grants.

Recommendation: We recommend that procedures be put into place to ensure that all reports required for compliance with grantor agencies are completed and filed in a timely manner.

Management's Response: Erath County is preparing the required reports and will file them upon completion with the Federal agency.

ERATH COUNTY, TEXAS
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2008

Status of Prior Year's Finding/Noncompliance

None

ERATH COUNTY, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended September 30, 2008

Exhibit D-1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying or Grant Number	Federal Expenditures
<u>U.S. Department of Homeland Security</u>			
<u>Passed Through The Governor's Division of Emergency Management</u>			
Federal Emergency Management Agency-Disaster Grants	97.036	FEMA-TX-DR1709	\$ 970,060
Total Passed Through The Governor's Division of Emergency Mgmt.			<u>970,060</u>
Total U.S. Department of Homeland Security			<u>970,060</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 970,060</u></u>

ERATH COUNTY, TEXAS
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2008

Note 1: Summary of Accounting Policies

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 financial assistance generally is accounted for in the Special Revenue Fund.

In the fund financial statements, all governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Governmental funds in the fund financial statements are accounted for using the modified accrual basis of accounting. 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 un-matured 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 and State 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. 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, is in accordance with provisions in Section H. Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.

Amounts reported in the Schedule of Expenditures of Federal Awards may not agree with the amounts reported in the related federal financial reports filed with grantor agencies because of accruals which would be included in the next report filed with the agencies.

