

ERATH COUNTY, TEXAS

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

together with

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2010

ERATH COUNTY, TEXAS
Annual Financial Report
Year Ended September 30, 2010

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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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2011, 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 considered in assessing the results of our audit.

Management's discussion and analysis and the other required supplementary information on pages 3 through 9 and 36 through 39, 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Davis Kinard & Co., PC
DAVIS KINARD & CO, PC

Abilene, Texas
April 6, 2011

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, 2010. Please read it in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

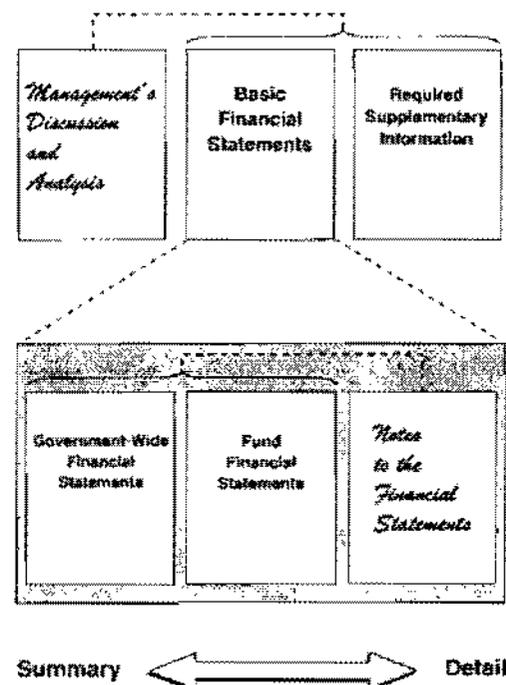
- Erath County's total combined net assets were \$26.99 million at September 30, 2010. Of this amount, almost \$16.3 million (unrestricted net assets) may be used to meet the County's ongoing obligations. The unrestricted net assets represent an increase of approximately \$0.2 million.
- During the year, the County's expenses were \$460,398 more than the \$14.7 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$13.3 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, road and bridge fund, and the capital projects fund, all of which are considered to be major funds. Individual fund data for each of the 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 36 thru 37 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 \$26.99 million at September 30, 2010. A large portion of the County's net assets reflects its investment in capital assets (e.g. land, buildings, machinery, equipment), less accumulated depreciation and any related outstanding debt (approximately 37%). 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 60%) may be used to meet the County's ongoing obligations to citizens and creditors.

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

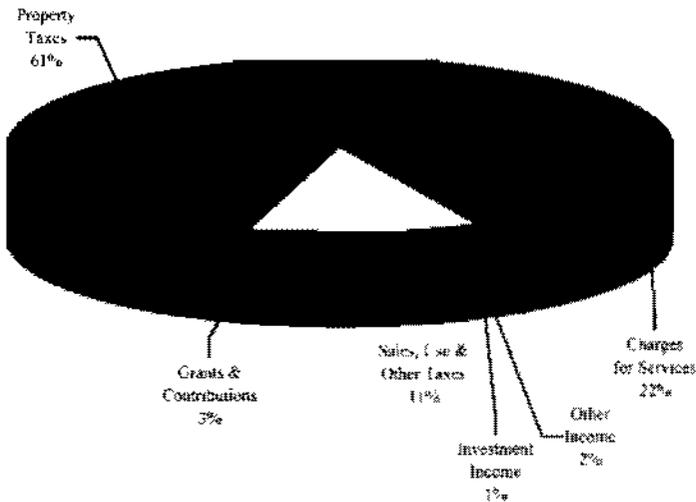
	Governmental Activities	
	2010	2009
Current and Other Assets	\$ 24,411	\$ 17,345
Capital Assets	10,451	10,676
Total Assets	34,862	28,021
Current Liabilities	650	365
Long Term Liabilities	7,225	209
Total Liabilities	7,875	574
Net Assets		
Invested in Capital Assets, net of related debt	9,992	10,676
Restricted	736	683
Unrestricted	16,259	16,088
Total Net Assets	\$ 26,987	\$ 27,447

Changes in Net Assets—Erath County's net assets decreased by approximately \$460,000 during the current fiscal year. Most of this decrease resulted from decreased charges for services and decreased sales taxes.

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

	Governmental Activities	
	2010	2009
Revenues:		
Program Revenues		
Charges for Services	\$ 3,285	\$ 3,430
Operating Grants and Contributions	468	444
General Revenues		
Property Taxes	8,958	8,800
Sales and Use and Other Taxes	1,690	2,175
Investment Earnings	43	178
Sales of Assets and Other	94	-
Miscellaneous	194	125
Total Revenues	14,732	15,152
Expenses:		
General Administration	2,639	2,673
Judicial	2,770	2,189
Public Safety and Law Enforcement	4,306	4,203
Road and Bridge	3,762	3,083
Health and Welfare	1,481	1,257
Conservation	139	133
Interest on Long-term Debt	95	-
Total Expenses	15,192	13,538
Change in Net Assets	(460)	1,614
Beginning Net Assets	27,447	25,833
Ending Net Assets	\$ 26,987	\$ 27,447

**Figure A-3
SOURCES OF REVENUE FOR FISCAL YEAR 2010**



Governmental Activities—Total revenues for the fiscal year ending September 30, 2010 were \$14.7 million. Approximately 72% of the County’s revenue comes from taxes, with over 61% from property taxes alone. Property tax revenue increased due, largely, to an increase in the tax base. Sales taxes decreased due to existing national economic conditions.

Expenditures increased by about \$1.7 million compared to the prior year. The majority of this increase was in judicial expense and road and bridge.

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 \$22.8 million. Approximately 68% of this total amount (\$15.5 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 capital projects and special revenue funds (\$7.3 million).

The General Fund is the chief operating fund of the County. At the end of the fiscal year, fund balance of \$13.3 million is mostly 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 126% of total General Fund expenditures.

General Fund Budgetary Highlights—Erath County’s General Fund balance decreased by just \$100,000 (before net fund transfers in) during the current fiscal year, less than 1% of the fund’s total annual expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets—As of September 30, 2010, the County had invested \$21.1 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 \$847,950 or 4.2% over last year.

Major events affecting capital assets during the year were:

- Additional vehicles and equipment purchased and
- Beginning construction on the new jail.

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
	2010	2009	
Land	\$ 578,580	\$ 578,580	0.0%
Buildings and Improvements	9,263,888	9,263,888	0.0%
Furniture and Equipment	10,614,250	10,204,295	4.02%
Construction in progress	666,211	228,216	191.9%
Total	21,122,929	20,274,979	4.2%
Total Accumulated Depreciation	9,206,094	9,598,442	11.2%
Net Capital Assets	<u>\$ 10,450,885</u>	<u>\$ 10,676,537</u>	<u>(2.11%)</u>

Long Term Debt—At year end, the County had \$7.2 million of long-term liabilities, which consisted of certificates of obligation and compensated absences. During 2010, \$7,000,000 in certificates of obligation were issued to provide funds for the construction of a new jail.

	Governmental Activities		Percent Change
	2010	2009	
Compensated absences	\$ 224,708	\$ 208,879	7.6%
Certificates of Obligation	7,000,000	-	100.0%
Total	<u>\$ 7,224,708</u>	<u>\$ 208,879</u>	<u>3,065.3%</u>

More detailed information about the County’s long term liabilities can be found in Note 7 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- The appraised value used for the 2011 budget preparation is estimated to be down \$48,837,660 or 2.15% from 2010.
- The tax rate established for 2011 is \$0.4500 per \$100 valuation, an increase from \$0.3900 for 2010.
- Erath County’s unemployment rate is currently 6.1%, according to the US Bureau of Labor Statistics, which is a decrease from the rate of 6.3% one year ago. This compares favorably to the state’s average unemployment rate of 8.2% and 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 budget for the 2011 fiscal year.

Amounts available for appropriation in the General Fund budget are \$11,349,794 for 2011, an increase of 9.4% over the 2010 budget of \$10,366,615. The amount appropriated from fund balance is estimated to be approximately \$946,718. Property and sales taxes are expected to be the only significant areas of decrease in General Fund revenues.

The largest increases are in Debt Service expenditures representing the jail construction/renovation project. The Certificates of Obligation for this project were issued in May of 2010 in the amount of \$7,000,000. This project's anticipated duration is eighteen months, beginning first quarter of 2011. No significant funding has been appropriated to the renovation of a multi-story office building just off the square in Stephenville. The County has added no other major new programs or initiatives to the 2011 budget.

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
Statement of Net Assets
September 30, 2010

Exhibit A-1

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,820,709
Investments	14,985,872
Restricted investments	6,478,010
Receivables (net of allowance for uncollectibles)	
Taxes	287,002
Other	813,804
Inventory of supplies	2,932
Bond issuance cost	22,709
Capital assets	
Land	578,580
Buildings, net	5,434,354
Furniture and equipment, net	3,771,740
Construction in progress	<u>666,211</u>
 Total assets	 34,861,923
LIABILITIES:	
Accounts payable and other current liabilities	506,923
Due to other governments	14,154
Due to others	35,129
Accrued interest payable	94,325
Noncurrent liabilities	
Certificate of obligation - due within one year	467,000
Certificate of obligation - due in more than one year	6,533,000
Accrued compensated absences - due in more than one year	<u>224,708</u>
 Total liabilities	 7,875,239
NET ASSETS:	
Invested in capital assets, net of related debt	9,992,400
Restricted for:	
Records management	472,773
Courthouse security	262,790
Unrestricted	<u>16,258,721</u>
 Total net assets	 \$ <u><u>26,986,684</u></u>

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

ERATH COUNTY, TEXAS
Statement of Activities
For the Year Ended September 30, 2010

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental activities			
General administration	\$ 2,639,407	\$ 1,570,267	\$ 420,301
Judicial administration	2,770,334	160,682	-
Public safety and law enforcement	4,305,811	695,700	13,853
Road and bridge	3,762,110	858,199	33,505
Health and welfare	1,480,815	-	-
Conservation	139,307	-	-
Interest and fees on long-term debt	94,825	-	-
TOTAL PRIMARY GOVERNMENT	\$ 15,192,609	\$ 3,284,848	\$ 467,659

General Revenues:

- Property taxes
- Other taxes
- Penalty and interest
- Miscellaneous revenue
- Investment earnings
- Gain 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
\$ (648,839)	\$ (648,839)
(2,609,652)	(2,609,652)
(3,596,258)	(3,596,258)
(2,870,406)	(2,870,406)
(1,480,815)	(1,480,815)
(139,307)	(139,307)
(94,825)	(94,825)
<u>(11,440,102)</u>	<u>(11,440,102)</u>
8,958,018	8,958,018
1,690,428	1,690,428
149,395	149,395
45,385	45,385
42,597	42,597
93,881	93,881
<u>10,979,704</u>	<u>10,979,704</u>
(460,398)	(460,398)
<u>27,447,082</u>	<u>27,447,082</u>
<u>\$ 26,986,684</u>	<u>\$ 26,986,684</u>

ERATH COUNTY, TEXAS

Balance Sheet

Governmental Funds

September 30, 2010

	General Fund	Road and Bridge Fund
ASSETS		
Cash and cash equivalents	\$ 766,732	\$ 540,189
Investments	12,570,750	1,091,407
Restricted investments	-	-
Receivables (net of allowances for uncollectibles)		
Taxes	192,168	78,124
Other	338,790	59,320
Due from other funds	23,977	-
Fuel inventory	2,932	-
Total assets	\$ 13,895,349	\$ 1,769,040
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and other current liabilities	\$ 227,614	\$ 123,789
Wages and salaries payable	89,476	23,264
Due to other governments	6,932	-
Due to others	35,129	-
Due to other funds	-	23,977
Deferred revenues	192,168	78,123
Total liabilities	551,319	249,153
Fund balances:		
Reserved:		
Inventory	2,932	-
Records management	-	-
Courthouse security	-	-
Capital projects	-	-
Unreserved:		
General fund	13,341,098	-
Special revenue funds	-	1,519,887
Total fund balances	13,344,030	1,519,887
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,895,349	\$ 1,769,040

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,500	\$ 495,843	\$ 1,804,264
-	949,067	14,611,224
6,478,010	-	6,478,010
-	16,710	287,002
-	43,228	441,338
-	-	23,977
-	-	2,932
<u>\$ 6,479,510</u>	<u>\$ 1,504,848</u>	<u>\$ 23,648,747</u>
\$ -	\$ 42,016	\$ 393,419
-	167	112,907
-	7,222	14,154
-	-	35,129
-	-	23,977
-	16,710	287,001
-	66,115	866,587
-	-	2,932
-	472,773	472,773
-	262,790	262,790
6,479,510	62,005	6,541,515
-	-	13,341,098
-	641,165	2,161,052
<u>6,479,510</u>	<u>1,438,733</u>	<u>22,782,160</u>
<u>\$ 6,479,510</u>	<u>\$ 1,504,848</u>	<u>\$ 23,648,747</u>

ERATH COUNTY, TEXAS
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Assets
September 30, 2010

Exhibit A-4

Total Fund Balances - Governmental Fund Balance Sheet	\$	22,782,160
<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>		
		390,496
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.</p>		
Governmental capital assets	\$ 21,122,929	
Accumulated Depreciation	<u>(10,672,044)</u>	10,450,885
<p>Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds. The net effect is a decrease in net assets.</p>		
		(7,224,708)
<p>Governmental funds report the effect of debt issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of deferring the debt issuance costs is an increase to net assets.</p>		
		22,709
<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	\$ 372,466	
Deferred revenue	<u>287,001</u>	659,467
<p>Payables for bond interest which are not due in the current period are not reported in the funds.</p>		
		<u>(94,325)</u>
Net Assets of Governmental Activities- Statement of Net Assets	\$	<u>26,986,684</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, 2010

	General Fund	Road and Bridge Fund
REVENUES		
Taxes:		
Property tax	\$ 5,921,281	\$ 2,504,243
Other taxes	1,690,428	-
Penalty and interest on taxes	101,186	41,072
Licenses and permits	17,258	747,024
Intergovernmental revenue and grants	418,603	46,775
Charges for services	32,790	-
Fines	2,012,031	34,631
Investment earnings	32,187	3,704
Miscellaneous	235,915	6,989
	<u>10,461,679</u>	<u>3,384,438</u>
EXPENDITURES		
Current:		
General administration	2,471,989	-
Judicial administration	2,139,959	-
Public safety and law enforcement	4,739,864	-
Road and bridge	-	3,293,614
Health and welfare	1,080,670	-
Conservation	139,307	-
Debt service:		
Bond issuance costs	-	-
	<u>10,571,789</u>	<u>3,293,614</u>
Excess of revenue over expenditures	<u>(110,110)</u>	<u>90,824</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	851,742	-
Transfers out	(40,680)	-
Proceeds from issuance of debt	-	-
Sale of real and personal property	5,712	88,169
	<u>816,774</u>	<u>88,169</u>
NET CHANGE IN FUND BALANCES	706,664	178,993
FUND BALANCES AT BEGINNING OF YEAR	<u>12,637,366</u>	<u>1,340,894</u>
FUND BALANCES AT END OF YEAR	<u>\$ 13,344,030</u>	<u>\$ 1,519,887</u>

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

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 502,143	\$ 8,927,667
-	-	1,690,428
-	7,137	149,395
-	-	764,282
-	-	465,378
-	31,854	64,644
-	171,815	2,218,477
3,260	2,697	41,848
-	12,975	255,879
<u>3,260</u>	<u>728,621</u>	<u>14,577,998</u>
-	13,292	2,485,281
-	552,567	2,692,526
-	24,355	4,764,219
-	-	3,293,614
-	400,145	1,480,815
-	-	139,307
<u>23,750</u>	<u>-</u>	<u>23,750</u>
<u>23,750</u>	<u>990,359</u>	<u>14,879,512</u>
<u>(20,490)</u>	<u>(261,738)</u>	<u>(301,514)</u>
-	540,680	1,392,422
(500,000)	(851,742)	(1,392,422)
7,000,000	-	7,000,000
-	-	93,881
<u>6,500,000</u>	<u>(311,062)</u>	<u>7,093,881</u>
6,479,510	(572,800)	6,792,367
-	2,011,533	15,989,793
<u>\$ 6,479,510</u>	<u>\$ 1,438,733</u>	<u>\$ 22,782,160</u>

ERATH COUNTY, TEXAS
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended September 30, 2010

Exhibit A-6

Net Change in Fund Balances - Total Governmental Funds	\$	6,792,367
<p>Amounts reported for governmental activities in the statement of activities (A-2) 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 decrease net assets.</p>		(13,139)
<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>		917,450
<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>		(1,143,102)
<p>Issuance of long term debt provides current financial resources to governmental funds, but is reported as a long-term liability in the statement of net assets. This is a decrease to net assets.</p>		(7,000,000)
<p>Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. This results in a decrease in net assets.</p>		(94,325)
<p>Governmental funds report the effect of debt issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of deferring the debt issuance costs is an increase to net assets.</p>		22,709
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting.</p>		
Increase in office fines and fees revenue	\$	43,120
Increase in deferred tax revenues		30,351
Increase in compensated absences		(15,829)
		57,642
Change in Net Assets of Governmental Activities - Statement of Activities	\$	(460,398)

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, 2010

Exhibit A-7

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 16,445
Investments	<u>374,648</u>
Total assets	<u>\$ 391,093</u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Salaries payable	\$ <u>597</u>
Total liabilities	<u>597</u>
Net assets	
Unrestricted	<u>390,496</u>
Total net assets	<u>390,496</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 391,093</u></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, 2010

Exhibit A-8

	<u>Governmental Activities Internal Service Fund</u>
OPERATING EXPENSES	
Personnel services - salaries and wages	\$ <u>13,888</u>
Total operating expenses	<u>13,888</u>
OPERATING INCOME (LOSS)	(13,888)
NONOPERATING REVENUES	
Investment earnings	<u>749</u>
Total nonoperating revenues	<u>749</u>
CHANGE IN NET ASSETS	(13,139)
NET ASSETS AT BEGINNING OF YEAR	<u>403,635</u>
NET ASSETS AT END OF YEAR	<u>\$ <u>390,496</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, 2010

Exhibit A-9

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to employees for services	\$ <u>(13,291)</u>
Net cash used by operating activities	<u>(13,291)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	749
Purchase of investments	<u>(731)</u>
Net cash provided by investing activities	<u>18</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(13,273)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>29,718</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 16,445</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (13,888)
Net change in:	
Claims payable	<u>597</u>
Total adjustments	<u>597</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (13,291)</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, 2010

Exhibit A-10

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,633,479</u>
TOTAL ASSETS	\$ <u>1,633,479</u>
LIABILITIES	
Due to others	\$ <u>1,633,479</u>
TOTAL LIABILITIES	\$ <u>1,633,479</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, 2010

NOTE 1: Summary of Significant Accounting Policies

The financial statements of Erath County, Texas (the 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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

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

• **Basis of Presentation**

Government-wide 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.

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.

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 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.

Capital Projects Funds. These funds account for financial resources to be used for the acquisition or construction of major capital facilities.

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.

Capital Projects Funds. These funds account for financial resources to be used for the acquisition or construction of major capital facilities.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

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.

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.

- **Measurement Focus and Basis of Accounting**

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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

C. 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.

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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

- **Property Taxes - continued**

The tax rates assessed for the year ended September 30, 2010 to finance maintenance and operations of the County and Road and Bridge were \$.28 and \$.11, respectively, for a total of \$.39 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 and Inventory**

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

- **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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

- **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 the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued as long-term liabilities 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.

Ten percent of sick pay is paid upon termination. At September 30, 2010 the value of accumulated vacation benefits was \$169,094 and the value of accumulated sick pay benefits was approximately \$55,614, for a total of \$224,708.

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. 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. On new bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 1: Summary of Significant Accounting Policies – continued

- Long-term Obligations - continued

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

- 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 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:

Inventory	\$ 2,932
Records Management	472,773
Courthouse Security	262,790
Capital Projects	<u>6,541,515</u>
 Total Reserved Fund Balance	 \$ <u><u>7,280,010</u></u>

There was no fund deficit reported for the year ending September 30, 2010.

- Legally adopted budgets

All governmental funds have legally adopted budgets.

- 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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

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, 2010, 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 and 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, local government investment pools, guaranteed investment contracts, and common trust funds.

Investments at September 30, 2010 consisted of the following:

Investment or Investment Type	Fair Value	Maturities	
		Less than 1 Year	Less than 2 Years
Certificates of Deposit	\$ 5,000,000	\$ 2,500,000	2,500,000
Money Market - DWS Government Cash	3,956,704	3,956,704	-
TexPool	12,507,178	12,507,178	-
Total Investments	\$ 21,463,882	\$ 18,963,882	\$ 2,500,000

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.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 2: Deposits and Investments – continued

B. Investments - continued

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

Policies Governing Deposits and Investments and Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the County was exposed to the following specific investment risks at year end:

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, 2010 were covered by depository insurance or by pledged collateral held by the County's agent bank in the County's name.

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, 2010, TexPool's investment credit quality rating was AAAm (Standard's & Poor's). DWS Government Cash was rated AAAm (Standard's & Poor's).

Interest Rate Risk: In accordance with its investment policy, the County manages its exposure to declines in fair values by structuring maturities to meet obligations of the County first and then achieve the highest rate of return of interest. When the County has funds not required to meet current-year obligations, maturity restraints will be imposed upon the investment strategy for each group of funds. The maximum allowable stated maturity of any individual investment owned by the County shall not exceed eighteen months from the time of purchase.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 3: Receivables

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

	Governmental			Total
	General Fund	Road & Bridge Fund	Other Governmental Funds	
Receivables				
Taxes	\$ 313,570	\$ 127,478	\$ 27,267	\$ 468,315
Other	338,790	59,320	43,228	441,338
Due from other funds	23,977	-	-	23,977
Total gross receivables	<u>676,337</u>	<u>186,798</u>	<u>70,495</u>	<u>933,630</u>
Less: Allowance for uncollectibles				
Taxes	<u>(121,402)</u>	<u>(49,354)</u>	<u>(10,557)</u>	<u>(181,313)</u>
Net total receivables	<u>\$ 554,935</u>	<u>\$ 137,444</u>	<u>\$ 59,938</u>	<u>\$ 752,317</u>

NOTE 4: Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 578,580	\$ -	\$ -	\$ 578,580
Construction in Progress	228,216	437,995	-	666,211
Total capital assets not being depreciated	<u>806,796</u>	<u>437,995</u>	<u>-</u>	<u>1,244,791</u>
Capital assets being depreciated				
Buildings and improvements	9,263,888	-	-	9,263,888
Furniture and Equipment	10,204,295	479,455	(69,500)	10,614,250
Total capital assets being depreciated	<u>19,468,183</u>	<u>479,455</u>	<u>(69,500)</u>	<u>19,878,138</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,589,042)	(240,492)	-	(3,829,534)
Furniture and Equipment	(6,009,400)	(902,610)	69,500	(6,842,510)
Total accumulated depreciation	<u>(9,598,442)</u>	<u>(1,143,102)</u>	<u>69,500</u>	<u>(10,672,044)</u>
Total capital assets being depreciated, net	<u>9,869,741</u>	<u>(663,647)</u>	<u>-</u>	<u>9,206,094</u>
Governmental activities capital assets, net	<u>\$ 10,676,537</u>	<u>\$ (225,652)</u>	<u>\$ -</u>	<u>\$ 10,450,885</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, 2010

NOTE 4: Capital Assets -- continued

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

General Government	\$ 162,582
Judicial Administration	77,808
Public Safety	343,935
Road & Bridge	<u>558,777</u>
 Total Depreciation Expense	 \$ <u>1,143,102</u>

NOTE 5: Interfund Transactions

Balances due to and due from other funds at September 30, 2010, consisted of the following:

Due to General Fund from:	
Road and Bridge Fund	\$ <u>23,977</u>
 Due from Other Funds	 \$ <u>23,977</u>

The principle purpose of the interfund payable was to reimburse the General Fund for expenses paid on behalf of the Road and Bridge Fund.

During the year ended September 30, 2010, the capital projects fund received a \$500,000 transfer from another governmental fund to pay for expenses related to the new jail construction. The Indigent Health Fund transferred \$851,742 of accumulated funds from previous years to the General Fund for operations. Additionally, the General Fund transferred \$40,680 to the Technology JP#1 Fund for operating expenses.

NOTE 6: Deferred Revenue

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

	General Fund	Road and Bridge Fund	Other Funds	Total
Net Tax Revenue	\$ <u>192,168</u>	\$ <u>78,123</u>	\$ <u>16,710</u>	\$ <u>287,001</u>

NOTE 7: Long-Term Obligations

A. Bonds

During the year ended September 30, 2010, the Erath County Commissioners' Court determined that certificates of obligation should be issued pursuant to the provisions of the Certificate of Obligation Act of 1971, Section 271.046, Texas Local Government Code, for the purpose of (1) Construction and renovation of the Erath County Jail and (2) Professional services rendered in relation to the building project and the financing thereof.

The County issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2010 to provide funds for the aforementioned projects including the renovation and making improvements to the County Jail building and to pay costs related to the issuance of the Certificates.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 7: Long-Term Obligations – continued

A. Bonds – continued

The following are bond issues outstanding at September 30, 2010:

	Interest rates	Date of issue	Date of Maturity	Bonds Outstanding
Certificates of obligation, Series 2010	3.85	2010	2025	\$ <u>7,000,000</u>
Total general obligations debt				\$ <u>7,000,000</u>

Annual debt service requirements to maturity for bonds are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2011	\$ 467,000	\$ 353,338	\$ 820,338
2012	467,000	242,531	709,531
2013	467,000	224,551	691,551
2014	467,000	206,572	673,572
2015	467,000	188,592	655,592
2016-2020	2,335,000	673,268	3,008,268
2021-2025	<u>2,330,000</u>	<u>223,878</u>	<u>2,553,878</u>
Totals	\$ <u>7,000,000</u>	\$ <u>2,112,730</u>	\$ <u>9,112,730</u>

B. Long-Term Obligation Activity

Long-Term Obligations include debt and compensated absences. Changes in long-term obligations for the period ended September 30, 2010, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Compensated absences	\$ 208,879	\$ 15,829	\$ -	\$ 224,708	\$ -
Certificates of obligation	<u>-</u>	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>	<u>467,000</u>
Total governmental activities	\$ <u>208,879</u>	\$ <u>7,015,829</u>	\$ <u>-</u>	\$ <u>7,224,708</u>	\$ <u>467,000</u>

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 8: 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, 2010, as follows:

Year Ending September 30,	
2011	\$ 13,571
2012	7,776
2013	2,805
2014	<u>505</u>
Total Minimum Future Lease Obligations	<u>\$ 24,657</u>
Rental Expenditures in 2010	<u>\$ 14,747</u>

NOTE 9: 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, 2010, 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 10: 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 TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 10: Pension Plan – continued

A. Plan Description – 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 provision of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 9.30% for the months of the accounting year in 2009 and 9.95% for the months of the accounting year in 2010.

The deposit rate payable by the employee members for calendar year 2010 is the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

C. Annual Pension Cost

For the County's accounting year ended September 30, 2010, the annual pension cost for the TCDRS plan for its employees was \$643,263 and actual contributions were \$643,263.

The required contribution was determined as part of the December 31, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2009 included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 5.4 percent. Both (a) and (b) include an inflation component of 3.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009 was 20 years.

D. Funded Status and Funding Progress

As of December 31, 2009, the most recent actuarial valuation date, the plan was 84.88% funded. The actuarial accrued liability for benefits was \$17,282,541, and the actuarial value of assets was \$14,669,715, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,612,826. The covered payroll (annual payroll of active employees covered by the plan) was \$6,772,094, and the ratio of UAAL to the covered payroll was 38.58%.

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

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 10: Pension Plan – continued

The December 31, 2009 actuarial valuation is the most recent valuation.

Actuarial Valuation Information:

Actuarial valuation date	12/31/2007	12/31/2008	12/31/2009
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	15 years	20 years	20 years
Asset valuation method	SAF: 10 years Smoothed value ESF: Fund value	SAF: 10 years Smoothed value ESF: Fund value	SAF: 10 years Smoothed value ESF: Fund value

Actuarial Assumptions:

	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Investment return*	8.00%	8.00%	8.00%
Projected salary increases*	5.30%	5.30%	5.40%
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>
9/30/2008	\$	521,919	100%	-
9/30/2009		580,592	100%	-
9/30/2010		643,263	100%	-

ERATH COUNTY, TEXAS
Notes to Basic Financial Statements
September 30, 2010

NOTE 11: 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, 2010 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.

NOTE 12: Subsequent Pronouncements

GASB No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions"

In March 2009 the Governmental Accounting Standards Board issued GASB No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

Other Recent Accounting Pronouncements

It is not expected that other recently issued accounting pronouncements will have a significant effect on the County's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ERATH COUNTY, TEXAS
General Fund
Budgetary Comparison Schedule
For The Year Ended September 30, 2010

Exhibit B-1

	2010			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES:				
Taxes:				
Property tax	\$ 6,214,422	\$ 6,214,422	\$ 5,921,281	\$ (293,141)
Other taxes	2,055,000	2,055,000	1,690,428	(364,572)
Penalty and interest on taxes	63,000	63,000	101,186	38,186
Licenses and permits	17,000	17,000	17,258	258
Intergovernmental revenue and grants	313,690	315,390	418,603	103,213
Charges for services	35,000	35,000	32,790	(2,210)
Fines	1,536,200	1,536,200	2,012,031	475,831
Investment earnings	53,500	53,500	32,187	(21,313)
Miscellaneous	78,803	78,803	235,915	157,112
Total revenues	10,366,615	10,368,315	10,461,679	93,364
EXPENDITURES:				
Current:				
General administration	3,426,138	3,368,037	2,471,989	896,048
Judicial administration	2,266,755	2,351,255	2,139,959	211,296
Public safety and law enforcement	5,004,248	4,998,129	4,739,864	258,265
Health and welfare	1,204,946	1,204,946	1,080,670	124,276
Conservation	148,720	148,720	139,307	9,413
Total expenditures	12,050,807	12,071,087	10,571,789	1,499,298
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(1,684,192)	(1,702,772)	(110,110)	1,592,662
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	851,742	851,742
Transfers out	-	-	(40,680)	(40,680)
Sale of real and personal property	-	-	5,712	5,712
Total other financing sources (uses)	-	-	816,774	816,774
NET CHANGE IN FUND BALANCES	(1,684,192)	(1,702,772)	706,664	2,409,436
FUND BALANCES AT BEGINNING OF YEAR	12,637,366	12,637,366	12,637,366	-
FUND BALANCES AT END OF YEAR	\$ 10,953,174	\$ 10,934,594	\$ 13,344,030	\$ 2,409,436

ERATH COUNTY, TEXAS
Road and Bridge
Budgetary Comparison Schedule
For the Year Ended September 30, 2010

Exhibit B-2

	2010			Variance from Final Budget
	Original Budget	Final Budget	Actual	
REVENUES:				
Taxes:				
Property tax	\$ 2,562,038	\$ 2,508,768	\$ 2,504,243	\$ (4,525)
Penalty and interest on taxes	27,238	26,700	41,072	14,372
Licenses and permits	675,500	685,500	747,024	61,524
Intergovernmental revenue and grants	32,000	32,000	46,775	14,775
Fines	35,000	34,000	34,631	631
Investment earnings	17,016	29,066	3,704	(25,362)
Miscellaneous	-	15,000	6,989	(8,011)
Total revenues	<u>3,348,792</u>	<u>3,331,034</u>	<u>3,384,438</u>	<u>53,404</u>
EXPENDITURES:				
Current:				
Road and bridge	<u>3,979,345</u>	<u>4,048,382</u>	<u>3,293,614</u>	<u>754,768</u>
Total expenditures	<u>3,979,345</u>	<u>4,048,382</u>	<u>3,293,614</u>	<u>754,768</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(630,553)</u>	<u>(717,348)</u>	<u>90,824</u>	<u>808,172</u>
OTHER FINANCING SOURCES (USES)				
Sale of real and personal property	-	-	88,169	88,169
Transfers in	210,000	252,000	180,000	(72,000)
Transfers out	<u>(210,000)</u>	<u>(252,000)</u>	<u>(180,000)</u>	<u>72,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>88,169</u>	<u>88,169</u>
NET CHANGE IN FUND BALANCES	<u>(630,553)</u>	<u>(717,348)</u>	<u>178,993</u>	<u>896,341</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>1,340,894</u>	<u>1,340,894</u>	<u>1,340,894</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 710,341</u>	<u>\$ 623,546</u>	<u>\$ 1,519,887</u>	<u>\$ 896,341</u>

ERATH COUNTY, TEXAS
Required Supplementary Information
Schedule of Funding Progress, Texas County and District Retirement System
For the Year Ended September 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL	Funded Ratio	Annual Covered Payroll	UAAI, as a Percentage of Covered Payroll
12/31/2007	\$ 12,604,898	\$ 14,150,481	\$ 1,545,583	89.08%	\$ 5,898,706	26.20%
12/31/2008	12,841,589	15,446,379	2,604,790	83.14%	6,261,681	41.60%
12/31/2009	14,669,715	17,282,541	2,612,826	84.88%	6,772,094	38.58%

ERATH COUNTY, TEXAS
Notes to Required Supplementary Information
For the Year Ended September 30, 2010

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, 2010.

COMBINING STATEMENTS

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2010

	12	13	14
	<u>Technology JP #1</u>	<u>Technology JP #2</u>	<u>Technology County Clerk</u>
ASSETS			
Cash and cash equivalents	\$ 40,236	\$ 1,522	\$ 156
Investments	-	-	-
Receivables (net of allowances for uncollectibles)			
Taxes	-	-	-
Other	-	237	-
	<u>-</u>	<u>237</u>	<u>-</u>
Total assets	<u>\$ 40,236</u>	<u>\$ 1,759</u>	<u>\$ 156</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and other current liabilities	\$ 89	\$ -	\$ -
Wages and salaries payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	-	-
Deferred revenues	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	89	-	-
Fund balance			
Reserved:			
Records management	-	-	-
Courthouse security	-	-	-
Capital projects			
Unreserved and undesignated:			
Special Revenue Funds	40,147	1,759	156
	<u>40,147</u>	<u>1,759</u>	<u>156</u>
Total fund balance	<u>40,147</u>	<u>1,759</u>	<u>156</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,236</u>	<u>\$ 1,759</u>	<u>\$ 156</u>

16	17	45	55	63	71	80
Contractual	County	Indigent	Law	Jail	Courthouse	Unclaimed
Elections	Attorney	Health	Library	Construction	Security	Property
	Intervention	Fund				Fund
\$ 8,113	\$ 11,003	\$ 24,084	\$ 11,114	\$ 62,005	\$ 60,803	\$ 8,185
-	-	422,822	-	-	201,707	-
-	-	16,710	-	-	-	-
-	-	15,661	1,741	-	281	-
<u>\$ 8,113</u>	<u>\$ 11,003</u>	<u>\$ 479,277</u>	<u>\$ 12,855</u>	<u>\$ 62,005</u>	<u>\$ 262,791</u>	<u>\$ 8,185</u>
\$ -	\$ -	\$ 38,839	\$ 3,087	\$ -	\$ 1	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	7,222
-	-	-	-	-	-	-
-	-	16,710	-	-	-	-
-	-	55,549	3,087	-	1	7,222
-	-	-	-	-	-	-
-	-	-	-	-	262,790	-
-	-	-	-	62,005	-	-
<u>8,113</u>	<u>11,003</u>	<u>423,728</u>	<u>9,768</u>	<u>-</u>	<u>-</u>	<u>963</u>
<u>8,113</u>	<u>11,003</u>	<u>423,728</u>	<u>9,768</u>	<u>62,005</u>	<u>262,790</u>	<u>963</u>
<u>\$ 8,113</u>	<u>\$ 11,003</u>	<u>\$ 479,277</u>	<u>\$ 12,855</u>	<u>\$ 62,005</u>	<u>\$ 262,791</u>	<u>\$ 8,185</u>

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Balance Sheet
September 30, 2010

	86 County Clerk Records Management	87 Records Preservation Fund	88 District Clerk Records Management
ASSETS			
Cash and cash equivalents	\$ 53,894	\$ 71,355	\$ 750
Investments	243,328	81,210	-
Receivables (net of allowances for uncollectibles)			
Taxes	-	-	-
Other	22,020	198	18
Total assets	\$ 319,242	\$ 152,763	\$ 768
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and other current liabilities	\$ -	\$ -	\$ -
Wages and salaries payable	-	-	-
Due to other governments	-	-	-
Due to other funds	-	-	-
Deferred revenues	-	-	-
Total liabilities	-	-	-
Fund balance			
Reserved:			
Records management	319,242	152,763	768
Courthouse security	-	-	-
Capital projects			
Unreserved and undesignated:			
Special Revenue Funds	-	-	-
Total fund balance	319,242	152,763	768
TOTAL LIABILITIES AND FUND BALANCE	\$ 319,242	\$ 152,763	\$ 768

90 County Attorney Hot Check	91 District Attorney Hot Check	92 District Attorney Bond Forfeiture	93 Sheriff Forfeiture Fund	Total Nonmajor Governmental Funds
\$ 57,235	\$ 7,535	\$ 36,004	\$ 41,849	\$ 495,843
-	-	-	-	949,067
-	-	-	-	16,710
1,592	-	-	1,480	43,228
<u>\$ 58,827</u>	<u>\$ 7,535</u>	<u>\$ 36,004</u>	<u>\$ 43,329</u>	<u>\$ 1,504,848</u>
\$ -	\$ -	\$ -	\$ -	\$ 42,016
72	-	95	-	167
-	-	-	-	7,222
-	-	-	-	-
-	-	-	-	16,710
72	-	95	-	66,115
-	-	-	-	472,773
-	-	-	-	262,790
-	-	-	-	62,005
<u>58,755</u>	<u>7,535</u>	<u>35,909</u>	<u>43,329</u>	<u>641,165</u>
<u>58,755</u>	<u>7,535</u>	<u>35,909</u>	<u>43,329</u>	<u>1,438,733</u>
<u>\$ 58,827</u>	<u>\$ 7,535</u>	<u>\$ 36,004</u>	<u>\$ 43,329</u>	<u>\$ 1,504,848</u>

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2010

	12	13	14	16
	<u>Technology JP #1</u>	<u>Technology JP #2</u>	<u>Technology County Clerk</u>	<u>Contractual Elections</u>
REVENUES				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Penalty and interest on taxes	-	-	-	-
Fines	-	-	156	-
Fees	9,983	1,759	-	8,112
Investment earnings	23	-	-	1
Miscellaneous	-	-	-	-
Total revenues	<u>10,006</u>	<u>1,759</u>	<u>156</u>	<u>8,113</u>
EXPENDITURES				
Current:				
General administration	10,539	-	-	-
Judicial administration	-	-	-	-
Public safety and law enforcement	-	-	-	-
Health and welfare	-	-	-	-
Total expenditures	<u>10,539</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(533)	1,759	156	8,113
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	<u>40,680</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	40,147	1,759	156	8,113
FUND BALANCES AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES AT END OF YEAR	<u>\$ 40,147</u>	<u>\$ 1,759</u>	<u>\$ 156</u>	<u>\$ 8,113</u>

17 County Attorney Intervention	45 Indigent Health Fund	55 Law Library	63 Jail Construction	71 Courthouse Security	80 Unclaimed Property Fund	86 County Clerk Records Management
\$ -	\$ 502,143	\$ -	\$ -	\$ -	\$ -	\$ -
-	7,137	-	-	-	-	-
12,000	-	21,175	-	25,379	-	78,523
1	1,350	5	-	435	5	510
-	3,263	8,000	-	-	-	-
12,001	513,893	29,180	-	25,814	5	79,033
-	-	-	-	2,753	-	-
998	-	14,678	437,995	-	-	67,170
-	-	-	-	-	-	-
-	400,145	-	-	-	-	-
998	400,145	14,678	437,995	2,753	-	67,170
11,003	113,748	14,502	(437,995)	23,061	5	11,863
-	(851,742)	-	500,000	-	-	-
11,003	(737,994)	14,502	62,005	23,061	5	11,863
-	1,161,722	(4,734)	-	239,729	958	307,379
\$ 11,003	\$ 423,728	\$ 9,768	\$ 62,005	\$ 262,790	\$ 963	\$ 319,242

ERATH COUNTY, TEXAS
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2010

	87 Records Preservation Fund	88 District Clerk Records Management	90 County Attorney Hot Check	91 District Attorney Hot Check
REVENUES				
Taxes:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Penalty and interest on taxes	-	-	-	-
Fines	23,077	230	22,935	340
Fees	-	-	-	-
Investment earnings	228	-	69	5
Miscellaneous	-	-	-	-
Total revenues	<u>23,305</u>	<u>230</u>	<u>23,004</u>	<u>345</u>
EXPENDITURES				
Current:				
General administration	-	-	-	-
Judicial administration	5,500	-	11,612	-
Public safety and law enforcement	-	-	-	-
Health and welfare	-	-	-	-
Total expenditures	<u>5,500</u>	<u>-</u>	<u>11,612</u>	<u>-</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	17,805	230	11,392	345
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
NET CHANGE IN FUND BALANCE	17,805	230	11,392	345
FUND BALANCES AT BEGINNING OF YEAR	<u>134,958</u>	<u>538</u>	<u>47,363</u>	<u>7,190</u>
FUND BALANCES AT END OF YEAR	<u>\$ 152,763</u>	<u>\$ 768</u>	<u>\$ 58,755</u>	<u>\$ 7,535</u>

92 District Attorney <u>Bond Forfeiture</u>	93 Sheriff Forfeiture <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
\$ -	\$ -	\$ 502,143
-	-	7,137
-	-	171,815
-	-	31,854
30	35	2,697
<u>910</u>	<u>802</u>	<u>12,975</u>
940	837	728,621
-	-	13,292
14,614	-	552,567
-	24,355	24,355
<u>-</u>	<u>-</u>	<u>400,145</u>
<u>14,614</u>	<u>24,355</u>	<u>990,359</u>
(13,674)	(23,518)	(261,738)
<u>-</u>	<u>-</u>	<u>(311,062)</u>
(13,674)	(23,518)	(572,800)
<u>49,583</u>	<u>66,847</u>	<u>2,011,533</u>
<u>\$ 35,909</u>	<u>\$ 43,329</u>	<u>\$ 1,438,733</u>

ERATH COUNTY, TEXAS
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 September 30, 2010

	<u>JP #2</u>	<u>Sales Tax</u>	<u>District Clerk Erath County Trust</u>	<u>Auto Fund</u>
ASSETS:				
Cash and cash equivalents	\$ 8,401	\$ 249,095	\$ 38,675	\$ 81,474
TOTAL ASSETS	<u>\$ 8,401</u>	<u>\$ 249,095</u>	<u>\$ 38,675</u>	<u>\$ 81,474</u>
LIABILITIES:				
Due to others	\$ 8,401	\$ 249,095	\$ 38,675	\$ 81,474
TOTAL LIABILITIES	<u>\$ 8,401</u>	<u>\$ 249,095</u>	<u>\$ 38,675</u>	<u>\$ 81,474</u>

<u>CA Escrow</u>	<u>Sheriff's Office Special</u>	<u>Jail Commissary</u>	<u>Jail Inmate Funds</u>	<u>Motor Vehicle Escrow</u>	<u>County Clerk Registry</u>
\$ <u>28,447</u>	\$ <u>1,968</u>	\$ <u>12,716</u>	\$ <u>4,358</u>	\$ <u>95,548</u>	\$ <u>49,244</u>
\$ <u>28,447</u>	\$ <u>1,968</u>	\$ <u>12,716</u>	\$ <u>4,358</u>	\$ <u>95,548</u>	\$ <u>49,244</u>
\$ <u>28,447</u>	\$ <u>1,968</u>	\$ <u>12,716</u>	\$ <u>4,358</u>	\$ <u>95,548</u>	\$ <u>49,244</u>
\$ <u>28,447</u>	\$ <u>1,968</u>	\$ <u>12,716</u>	\$ <u>4,358</u>	\$ <u>95,548</u>	\$ <u>49,244</u>

ERATH COUNTY, TEXAS
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 September 30, 2010

	<u>Court Bonds Registry</u>	<u>266th District Registry</u>	<u>Tim Lynn Torre Jr Registry of the Court</u>	<u>County Clerk Court Trust</u>	<u>Cory Stephens Registry of the Court</u>	<u>District Clerk CV 24105</u>
ASSETS:						
Cash and cash equivalents	\$ 76,013	\$ 23,000	\$ 12,661	\$ 619,914	\$ 23,947	\$ 50,651
TOTAL ASSETS	<u>\$ 76,013</u>	<u>\$ 23,000</u>	<u>\$ 12,661</u>	<u>\$ 619,914</u>	<u>\$ 23,947</u>	<u>\$ 50,651</u>
LIABILITIES:						
Due to others	\$ 76,013	\$ 23,000	\$ 12,661	\$ 619,914	\$ 23,947	\$ 50,651
TOTAL LIABILITIES	<u>\$ 76,013</u>	<u>\$ 23,000</u>	<u>\$ 12,661</u>	<u>\$ 619,914</u>	<u>\$ 23,947</u>	<u>\$ 50,651</u>

District Clerk CV 27879	District Clerk CV 28175	Tax Assessor Collector State	District Attorney Escrow Account	Escrow Payment Jennifer Carey	District Account Jennifer Carey	District Attorney Forfeiture Account
\$ 2,212	\$ 2,434	\$ 9,993	\$ 212	\$ 32,221	\$ 179,705	\$ 14,962
<u>\$ 2,212</u>	<u>\$ 2,434</u>	<u>\$ 9,993</u>	<u>\$ 212</u>	<u>\$ 32,221</u>	<u>\$ 179,705</u>	<u>\$ 14,962</u>
\$ 2,212	\$ 2,434	\$ 9,993	\$ 212	\$ 32,221	\$ 179,705	\$ 14,962
<u>\$ 2,212</u>	<u>\$ 2,434</u>	<u>\$ 9,993</u>	<u>\$ 212</u>	<u>\$ 32,221</u>	<u>\$ 179,705</u>	<u>\$ 14,962</u>

ERATH COUNTY, TEXAS
 Combining Statement of Fiduciary Assets and Liabilities
 Agency Funds
 September 30, 2010

Exhibit C-3

	<u>Motor Vehicle Internet Regulation</u>	<u>Drug Education</u>	<u>Credit Card Payments</u>	<u>Bail Bond Board</u>	<u>Total Agency Funds</u>
ASSETS:					
Cash and cash equivalents	\$ 299	\$ 735	\$ 11,934	\$ 2,660	\$ 1,633,479
TOTAL ASSETS	<u>\$ 299</u>	<u>\$ 735</u>	<u>\$ 11,934</u>	<u>\$ 2,660</u>	<u>\$ 1,633,479</u>
LIABILITIES:					
Due to others	\$ 299	\$ 735	\$ 11,934	\$ 2,660	\$ 1,633,479
TOTAL LIABILITIES	<u>\$ 299</u>	<u>\$ 735</u>	<u>\$ 11,934</u>	<u>\$ 2,660</u>	<u>\$ 1,633,479</u>

GOVERNMENTAL REPORTING 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, 2010, and have issued our report thereon dated April 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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*.

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

Davis Kinard & Co., PC
DAVIS KINARD & CO, PC

Abilene, Texas
April 6, 2011