

NOLAN COUNTY, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2008**

NOLAN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nolan County, Texas, as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Nolan 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.

As discussed in Note I, Nolan County, Texas, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nolan County, Texas, as of September 30, 2008, and the respective changes in financial position—modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note I.

The management's discussion and analysis and budgetary comparison information on pages ii through viii and 25 through 29 are not a required part of the basic financial statements but are supplementary information required to accompany those financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis, Kinard & Co., P.C.

DAVIS, KINARD & CO., P.C.

Abilene, Texas
January 21, 2009

NOLAN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Nolan County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year ended September 30, 2008. Please read it in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

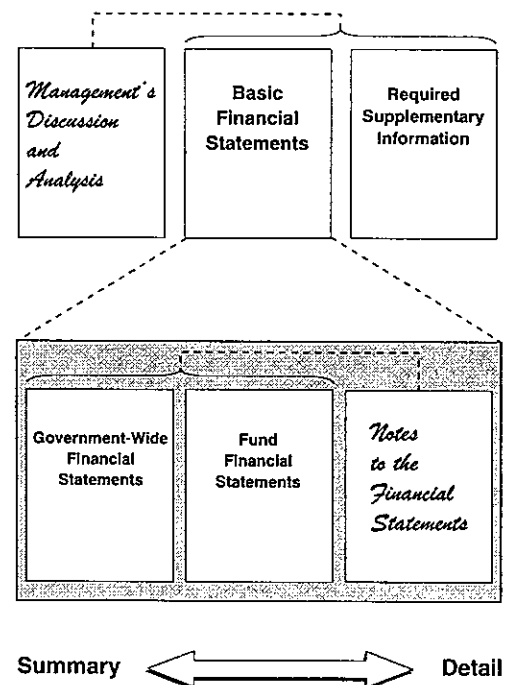
- Nolan County's total combined net assets were \$6.8 million at September 30, 2008. Of this amount, \$4 million (*unrestricted net assets*) may be used to meet the County's ongoing obligations.
- During the year, the County's expenses were \$360 thousand less than the \$7 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$3.8 million. All \$3.8 million 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.

<i>Type of Statement</i>	Government-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire County's government (except fiduciary funds).	The activities of the County that are not proprietary or fiduciary	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 fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified cash basis accounting and current financial 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 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 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

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of Nolan County's finances, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets (Page 1) presents information on all of Nolan 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 Nolan County's financial position is improving or deteriorating when examined in conjunction with nonfinancial factors. The Statement of Activities (Pages 2 and 3) 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 Nolan 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, farm to market roads, health and welfare, economic development, culture and recreation. These activities are financed primarily by property taxes and grants.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about the Nolan 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. Nolan 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 two 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 5 and 7 of the basic financial statements section.

The County maintains fourteen individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund and the farm to market fund, both of which are considered to be major funds. Individual fund data for each of the twelve 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 statements have been provided on Pages 26 to 27 to demonstrate compliance with this budget.

- **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 found on Page 8. 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

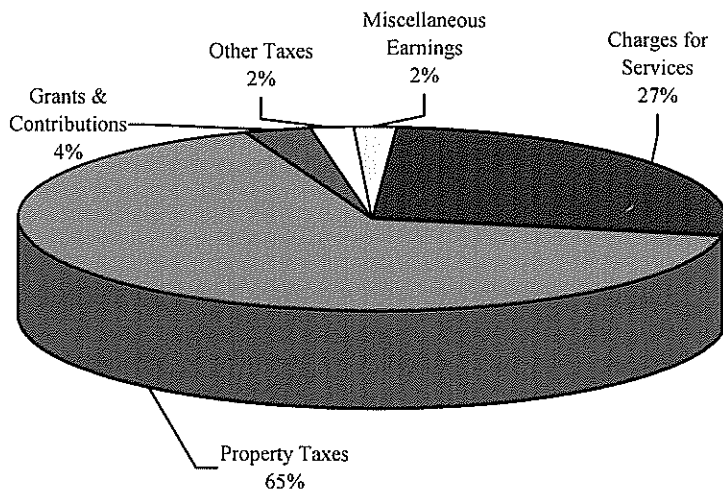
Nolan County's combined net assets were approximately \$6.8 million at September 30, 2008. The largest portion of the County's net assets reflects its investments, cash and accounts receivable, with the remainder reported as capital assets.

Table A-1
Nolan County's Net Assets

	Governmental Activities	
	2008	2007
Current and Other Assets	\$ 4,723,085	\$ 4,216,632
Capital and Non-Current Assets	3,063,294	3,297,582
Total Assets	7,786,379	7,514,214
Current Liabilities	233,201	241,025
Long Term Liabilities	712,671	793,162
Total Liabilities	945,872	1,034,187
Net Assets		
Invested in Capital Assets, net of related debt	2,321,770	2,387,007
Restricted	512,176	477,799
Unrestricted	4,006,561	3,615,221
Total Net Assets	\$ 6,840,507	\$ 6,480,027

Changes in Net Assets—Nolan County's net assets increased by approximately \$360 thousand during the current fiscal year. While property taxes increased by 5%, charges for services increased by approximately 17%.

Figure A-3
SOURCES OF REVENUE FOR FISCAL YEAR 2008



Governmental Activities—Total revenues for the fiscal year ending September 30, 2008 were \$7 million. Approximately 67% of the County's revenue comes from taxes. Property tax revenue increased 5% due to an increase in property values.

Expenses increased by \$186 thousand or 2.86% from the prior year. For the most part, this increase was in the areas of general government and facilities.

Table A-2
Nolan County's Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues		
Charges for Services	\$ 1,852,187	\$ 1,589,033
Operating Grants and Contributions	268,439	334,847
General Revenues		
Property Taxes	4,578,830	4,357,724
Other Taxes	172,130	146,292
Investment Earnings	111,840	177,082
Miscellaneous	30,680	-
Gain (Loss) on Sale of Assets	-	(16,716)
Total Revenues	7,014,106	6,588,262
Expenses:		
General Government	1,300,609	1,107,227
Judicial Administration	795,501	722,531
Legal	341,319	340,496
Financial Administration	355,852	361,849
Public Facilities	529,828	496,139
Public Safety	1,459,580	1,508,252
Farm to Market	1,259,451	1,317,486
Health and Welfare	354,564	344,760
Extension Service	88,603	89,566
Debt Service Interest Expense	34,478	40,097
Museum and Library-Intergovernmental	133,841	139,628
Total Expenses	6,653,626	6,468,031
Increase in Net Assets	360,480	120,231
Beginning Net Assets	6,480,027	6,359,796
Ending Net Assets	\$ 6,840,507	\$ 6,480,027

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As of the end of the fiscal year, Nolan County's governmental funds reported a combined fund balance of \$4.4 million, an increase of \$791 thousand in comparison with the prior year. Approximately 88% of this total amount (\$3.9 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.

The General Fund is the chief operating fund of the County. At the end of the fiscal year, \$3.8 million, the total fund balance is unreserved. 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 75% of total General Fund expenditures.

Nolan County's General Fund balance increased by \$756 thousand during the current fiscal year. Key factors in this growth are:

- Property tax values for the General Fund increased from \$830,139,093 valuation in 2007 to \$1,157,224,098 valuation in 2008.

General Fund Budgetary Highlights—Over the course of the year, the County revised its budget several times. With these adjustments, actual expenditures were \$589 thousand below final budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets—As of September 30, 2008, the County had invested \$9.4 million in a broad range of capital assets, including land, buildings, roads, bridges and equipment. This amount represents a net decrease (including additions, retirements and adjustments) of \$234 thousand, or 7% over last year.

Major events affecting capital assets during the year were:

- Outdoor Warning System
- Machinery and equipment for Farm to Market
- New vehicles and equipment for the Sheriff's Department.

More detailed information about the County's capital assets can be found on page 18.

Table A-3
Nolan County's Capital Assets

	Governmental Activities	
	2008	2007
Land	\$ 52,775	\$ 31,775
Buildings and Improvements	4,795,189	4,795,189
Furniture and Equipment	4,596,617	4,521,867
Total	9,444,581	9,348,831
Less Accumulated Depreciation	(6,381,287)	(6,051,249)
Net Capital Assets	<u>\$ 3,063,294</u>	<u>\$ 3,297,582</u>

Long Term Debt—At the end of the year, the County had \$795 thousand in outstanding debt.

Table A-4
The County's Long Term Debt

	Governmental Activities	
	2008	2007
Bonds Payable	\$ 659,000	\$ 766,000
Capital Leases Payable	94,524	132,575
Loan Payable	-	25,000
Compensated Absences	41,038	39,638
Total Long-Term Debt Payable	<u>\$ 794,562</u>	<u>\$ 963,213</u>

During the year, Nolan County's debt decreased by \$169 thousand. No new debt was issued and debt service payments totaled \$170 thousand.

The State limits the amount of general obligation debt that a County can issue to 25% of its total assessed valuation. The current debt limitation is \$289 million which is significantly higher than the County's outstanding general obligation debt.

More detailed information about the County's long term liabilities can be found in the notes beginning on page 20.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The appraised value used for the 2009 budget preparation is estimated to be up \$280 thousand or 24% from 2008.
- The tax rate established for 2009 is \$.35752, a decrease of \$.04778 from 2008.
- Inflationary trends in the region compare favorably to national indices.

These factors and others were taken into consideration when preparing the General Fund budget for the 2008 fiscal year.

Amounts available for appropriation in the General Fund budget are \$5,699,553, an increase of 3% over the 2008 budget of \$5,509,578. Property taxes (benefiting from the 2008 increases in assessed valuations) are expected to lead to this increase.

Budgeted expenditures are expected to rise approximately 12.5% to \$6,171,927. The largest increments are increases in computer services, boarding prisoners out of county, court-appointed attorneys, utilities, fuel, salaries and courthouse renovations. The County has added no major new programs or initiatives to the 2009 budget.

If these estimates are realized, the County's budgetary General Fund balance is expected to decrease.

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 Nolan 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 Nolan County Auditor, 100 E. 3rd Street, Suite 102, Sweetwater, Texas 79556.

BASIC FINANCIAL STATEMENTS

NOLAN COUNTY, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

	Primary Government
	Governmental Activities
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,477,645
Investments - Current	2,931,618
Receivables (net of allowance for uncollectibles)	301,822
Capitalized Debt Issuance Costs	12,000
Capital Assets:	
Land	52,775
Buildings, net	1,077,229
Machinery and Equipment, net	1,933,290
Total Assets	<u>7,786,379</u>
LIABILITIES	
Accounts Payable	151,310
Noncurrent Liabilities	
Due Within One Year	81,891
Due in More Than One Year	712,671
Total Liabilities	<u>945,872</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,321,770
Restricted for:	
Debt Service	172,918
Farm to Market	97,776
Records Management	17,252
Courthouse Security	141,291
JP Technology	82,939
Unrestricted Net Assets	4,006,561
Total Net Assets	<u>\$ 6,840,507</u>

The notes to the Financial Statements are an integral part of this statement.

NOLAN COUNTY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

		Program Revenues	
		Fines, Fees & Charges for Services	Operating Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,300,609	\$ 461,238	\$ 2,374
Judicial	795,501	497,195	84,933
Legal	341,319	75,960	70,081
Financial Administration	355,852	56,137	-
Public Facilities	529,828	19,738	-
Public Safety	1,459,580	32,637	7,587
Farm to Market	1,259,451	709,282	33,617
Health and Welfare	354,564	-	-
Extension Service	88,603	-	-
Debt Interest	32,978	-	-
Fiscal Agent's Fees	1,500	-	-
Intergovernmental	133,841	-	-
TOTAL PRIMARY GOVERNMENT:	\$ 6,653,626	\$ 1,852,187	\$ 198,592

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Farm to Market

Sales Taxes

Other Taxes

Miscellaneous Revenue

Investment Earnings

Total General Revenues

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets	
Capital Grants and Contributions	Primary Government Governmental
\$ -	\$ (836,997)
-	(213,373)
-	(195,278)
-	(299,715)
-	(510,090)
69,847	(1,349,509)
-	(516,552)
-	(354,564)
-	(88,603)
-	(32,978)
-	(1,500)
-	(133,841)
<u>\$ 69,847</u>	<u>(4,533,000)</u>

4,197,961
380,869
22,370
149,760
30,680
111,840
<u>4,893,480</u>
360,480
6,480,027
<u>\$ 6,840,507</u>

NOLAN COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
SEPTEMBER 30, 2008

	General Fund	Farm to Market Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,177,259	\$ 6,809	\$ 293,577	\$ 1,477,645
Investments - Current	2,671,494	90,967	169,157	2,931,618
Taxes Receivable	246,581	26,431	-	273,012
Allowance for Uncollectible Taxes (credit)	(182,470)	(21,673)	-	(204,143)
Total Assets	<u>\$ 3,912,864</u>	<u>\$ 102,534</u>	<u>\$ 462,734</u>	<u>\$ 4,478,132</u>
LIABILITIES AND FUND BALANCES				
Deferred Revenues	\$ 64,111	\$ 4,758	\$ -	\$ 68,869
Total Liabilities	<u>64,111</u>	<u>4,758</u>	<u>-</u>	<u>68,869</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	172,918	172,918
Farm to Market	-	97,776	-	97,776
Records Management	-	-	17,252	17,252
Courthouse Security	-	-	141,291	141,291
JP Technology	-	-	82,939	82,939
Unreserved and Undesignated:				
Reported in the General Fund	3,848,753	-	-	3,848,753
Reported in the Special Revenue Fund	<u>-</u>	<u>-</u>	<u>48,334</u>	<u>48,334</u>
Total Fund Balances	<u>3,848,753</u>	<u>97,776</u>	<u>462,734</u>	<u>4,409,263</u>
Total Liabilities and Fund Balances	<u>\$ 3,912,864</u>	<u>\$ 102,534</u>	<u>\$ 462,734</u>	<u>\$ 4,478,132</u>

The notes to the Financial Statements are an integral part of this statement.

NOLAN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	\$ 4,409,263
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$9,348,831 and the accumulated depreciation was \$6,051,249. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. See Note II A in the footnotes for further explanation of this adjustment.	2,347,369
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase net assets. See Note II B in the footnotes for further explanation of this adjustment.	342,081
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(406,318)
Various other reclassifications and eliminations are necessary to convert from the modified cash basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets. See Note II B in the footnotes for further explanation of this adjustment.	148,112
Net Assets of Governmental Activities	<u>\$ 6,840,507</u>

The notes to the Financial Statements are an integral part of this statement.

NOLAN COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Farm to Market Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 4,384,398	\$ 385,054	\$ -	\$ 4,769,452
Hotel/Motel Tax	-	-	132,627	132,627
Other Taxes	35,890	-	-	35,890
Licenses and Permits	55,965	403,449	-	459,414
Intergovernmental Revenue and Grants	299,689	33,617	1,750	335,056
Fines and Fees	910,455	135,605	115,802	1,161,862
Investment Earnings	123,068	2,234	6,921	132,223
Rents and Royalties	13,870	-	-	13,870
Other Revenue	49,335	170,228	6,562	226,125
Total Revenues	5,872,670	1,130,187	263,662	7,266,519
EXPENDITURES:				
Current:				
General Government	1,200,414	-	51,852	1,252,266
Judicial Administration	759,258	-	28,526	787,784
Legal	292,535	-	44,915	337,450
Financial Administration	360,928	-	-	360,928
Public Facilities	434,805	-	-	434,805
Public Safety	1,497,369	-	10,655	1,508,024
Farm to Market	-	1,095,691	-	1,095,691
Health and Welfare	345,901	-	-	345,901
Extension Service	88,581	-	-	88,581
Debt Service:				
Principal	-	-	107,500	107,500
Interest	-	-	32,978	32,978
Intergovernmental:				
Intergovernmental	133,745	-	-	133,745
Total Expenditures	5,113,536	1,095,691	276,426	6,485,653
Excess (Deficiency) of Revenues Over (Under) Expenditures	759,134	34,496	(12,764)	780,866
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	1,575	8,105	-	9,680
Transfers In	-	-	4,887	4,887
Transfers Out (Use)	(4,887)	-	-	(4,887)
Total Other Financing Sources (Uses)	(3,312)	8,105	4,887	9,680
Net Change in Fund Balances	755,822	42,601	(7,877)	790,546
Fund Balance - October 1 (Beginning)	3,092,931	55,175	470,611	3,618,717
Fund Balance - September 30 (Ending)	\$ 3,848,753	\$ 97,776	\$ 462,734	\$ 4,409,263

The notes to the Financial Statements are an integral part of this statement.

NOLAN COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 790,546
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase net assets. See Note II A in the footnotes for further explanation of this adjustment.	342,081
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(406,318)
Various other reclassifications and eliminations are necessary to convert from the modified cash basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets. See Note II B in the footnotes for further explanation of this adjustment.	(365,829)
Change in Net Assets of Governmental Activities	\$ 360,480

The notes to the Financial Statements are an integral part of this statement.

NOLAN COUNTY, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2008

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 1,261,478
Total Assets	<u>\$ 1,261,478</u>
LIABILITIES	
Due to Others	\$ 1,261,478
Total Liabilities	<u>\$ 1,261,478</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

**NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution and Vernon's Annotated Civil Statutes (V.A.C.S.).

A. REPORTING ENTITY

The County's modified cash financial statements include the cash accounts of all funds handled by the Office of the County Treasurer. The County's major activities or functions include public safety (sheriff and ambulance), parks and libraries, public health and social services, construction and maintenance of roads, and general administrative services. The County operates under a county judge/commissioners' court type of government as provided for by state statute. The Commissioners' Court has governance responsibilities over all activities related to the County. The County receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. Because members of the Commissioners' Court are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters, the County is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, "The Financial Reporting Entity". There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the County's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, fines and fees, grants and other intergovernmental revenues.

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

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

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

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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

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

The County prepares its fund financial statements on the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions. The modified cash basis is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified cash basis, most types of revenues are recognized when received rather than when earned and expenses are recognized when paid rather than when the obligation is incurred. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements, except that the County does record amounts due to other governmental units as a liability at year end.

If the County utilized the basis of accounting recognized as generally accepted, the fund financial statements for the governmental funds would use the modified accrual basis of accounting, while the fiduciary fund financial statements and the government-wide financial statements would be presented using the accrual basis of accounting.

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

D. FUND ACCOUNTING

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Separate funds are established to account for receipts and disbursements pertaining to separate identifiable functions of the County. Each fund represents a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. As a result, total receipts and disbursements by the County Treasurer are accumulated for report purposes with no elimination of interfund transactions.

The County reports the following major governmental funds:

- **General Fund** - To account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available for any purpose, provided it is expended or transferred in accordance with the legally adopted budget of the County.
- **Farm to Market** - To account for proceeds of specific revenue sources that are legally reserved for expenditures for public transportation for County citizens.

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

D. FUND ACCOUNTING, continued

Additionally, the County reports the following non-major fund types:

Governmental Funds:

- **Special Revenue Fund** - To account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally reserved for expenditures for specified purposes.
- **Debt Service Fund** - To account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.
- **Capital Projects Fund** - To account for other revenues to be used for authorized construction or purchase of capital outlay.

Fiduciary Fund Types:

- **Trust and Agency Funds** - To account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund types, the County considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
2. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.
3. 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.

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

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. OTHER ACCOUNTING POLICIES, continued

4. Capital assets include land, buildings, furniture and equipment and are reported in the applicable governmental or business-type activities columns in the Government-Wide Financial Statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-30
Furniture and Equipment	5-12
Vehicles and Heavy Equipment	5-12

5. 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. Health insurance is provided to the County's employees through a licensed insurer authorized by Article 3.51-2 Texas Insurance Code by contractual agreement.
6. 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 parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Amounts reserved in the various governmental funds are as follows:

Debt Service Fund	\$ 172,918
Farm to Market	97,776
Records Management	17,252
Courthouse Security	141,291
JP Technology	<u>82,939</u>
Total Reserved Fund Balance	<u>\$ 512,176</u>

F. Use of Estimates

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

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Page 5 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 31,775	\$	\$ 31,775	\$
Buildings and Improvements	4,795,189	3,652,393	1,142,796	
Furniture and Equipment	4,521,867	2,398,856	2,123,011	
	<u>\$ 9,348,831</u>	<u>\$ 6,051,249</u>	<u>\$ 3,297,582</u>	3,297,582
Bond Issuance Cost				13,000
Change in Net Assets				<u>3,310,582</u>
<u>Long-term Liabilities at the Beginning of the Year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 766,000	
Capital Leases Payable			132,575	
Loans Payable			25,000	
Compensated Absences			39,638	
Change in Net Assets			<u>\$ 963,213</u>	<u>(963,213)</u>
Net Adjustment to Net Assets				<u>\$ 2,347,369</u>

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS,
continued

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

Pages 5 and 7 provide reconciliations between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
<u>Current Year Capital Outlay</u>			
Land	\$ 21,000	\$	\$
Machinery and Equipment	151,030		
Total Capital Outlay	<u>\$ 172,030</u>	172,030	172,030
<u>Debt Principal Payments</u>			
Bond Principal	\$ 107,000		
Capital Lease Principal	38,051		
Loan Payable	25,000		
Total Principal Payments	<u>\$ 170,051</u>	170,051	170,051
		<u>\$ 342,081</u>	<u>\$ 342,081</u>

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS,
continued

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

Another element of the reconciliations on Pages 5 and 7 is described as various other reclassifications and eliminations necessary to convert from the modified cash basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Changes In Net Assets	Adjustments to Net Assets
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes collected from prior year levies	\$ 76,891	\$ (76,891)	\$ -
Uncollected taxes (assumed collectible) from current year levy	11,339	11,339	11,339
Uncollected taxes (assumed collectible) from prior year levy	57,530		57,530
Adjustment to prior year estimate of collectible taxes	125,070	(125,070)	
Subtotal		(190,622)	68,869
<u>Adjustments to Receivables and Revenue</u>			
Beginning balance in other receivables	304,267	-	304,267
Change in other receivables	72,088	(72,088)	(72,088)
Beginning balance in interest receivable	21,157		21,157
Decrease in interest receivable	20,383	(20,383)	(20,383)
Amortization of bond issuance costs	1,000	(1,000)	(1,000)
Subtotal		(93,471)	231,953
<u>Adjustments to Expenses and Liabilities</u>			
Beginning balance in accounts payable	70,974	-	(70,974)
Increase in accounts payable	80,336	(80,336)	(80,336)
Increase in unused vacation	1,400	(1,400)	(1,400)
Subtotal		(81,736)	(152,710)
Total Adjustments		<u>\$ (365,829)</u>	<u>\$ 148,112</u>

**NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

III. PROPERTY TAXES

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

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature which 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 countywide Appraisal Districts and for the State Property Tax Board that commenced operation in January 1980.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2008, the carrying amount of the County's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,477,645 and the bank balance was \$1,610,685. The County's deposits as of September 30, 2008 were entirely covered by FDIC insurance or by pledged collateral held by the County's bank in the County's name.

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

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

A. DEPOSITS AND INVESTMENTS, continued

Legal and Contractual Provisions Governing Deposits and Investments, continued

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

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

Investments held by the County at September 30, 2008 consisted of the following:

Tex Pool	\$ <u>2,671,494</u>
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Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the County adopted a deposit and investment policy; however, that policy does not address the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the County's deposits may not be returned to it. The County was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2008 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. The County's securities are all in securities backed by the United States of America and are not exposed to custodial credit risk.

Other Credit Risk - There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies' repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC. As of September 30, 2008 TexPool's investments credit quality rating was AAAM (Standard & Poor's).

The County's general policy is to report nonparticipating interest-earning investment contracts using a cost-based measure. The term "nonparticipating" means that the investment's value does not vary with the market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest earning investment contracts. As of September 30, 2008, the County's investments consisted of certificates of deposit held at the County's bank.

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

B. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables and payables at September 30, 2008.

C. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2008, were as follows:

	Property Taxes
Governmental Activities	
General Fund	\$ 246,581
Farm to Market Fund	26,431
Total – Governmental Activities	<u>\$ 273,012</u>
 Allowance for Uncollectible Taxes	 <u>\$ (204,143)</u>

There were no payables at September 30, 2008 reported on the County's fund statements.

D. CAPITAL ASSET ACTIVITY

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

	Balance October 1, 2007	Additions	Retirements	Balance September 30, 2008
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 31,775	\$ 21,000	\$ -	\$ 52,775
Total Non-depreciable Assets	<u>31,775</u>	<u>21,000</u>	<u>-</u>	<u>52,775</u>
Depreciable Assets:				
Buildings and Improvements	4,795,189			4,795,189
Machinery and Equipment	4,521,867	151,030	76,280	4,596,617
Total Depreciable Assets	<u>9,317,056</u>	<u>151,030</u>	<u>76,280</u>	<u>9,391,806</u>
Totals at Historic Cost	<u>9,348,831</u>	<u>172,030</u>	<u>76,280</u>	<u>9,444,581</u>
Less Accumulated Depreciation:				
Buildings and Improvements	3,652,393	65,567		3,717,960
Furniture and Equipment	2,398,856	340,751	76,280	2,663,327
Total Accumulated Depreciation	<u>6,051,249</u>	<u>406,318</u>	<u>76,280</u>	<u>6,381,287</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,297,582</u>	<u>\$ (234,288)</u>	<u>\$ -</u>	<u>\$ 3,063,294</u>

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

D CAPITAL ASSET ACTIVITY continued

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

General Government	\$ 20,202
Public Facilities	80,731
Public Safety	98,092
Farm to Market	207,293
Total Depreciation Expense	<u>\$ 406,318</u>

E DEFERRED REVENUE

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

	General Fund	Special Revenue Fund	Total
Net Tax Revenue	<u>\$ 64,111</u>	<u>\$ 4,758</u>	<u>\$ 68,869</u>

Adjustments required for Government-Wide Statement of Net Assets decreased deferred revenue by \$68,869.

F. ACCUMULATED UNPAID ANNUAL LEAVE

Accumulated unpaid annual leave amounts are not accrued in governmental funds using the modified cash basis of accounting, but are reflected in the Government-Wide Statement of Net Assets. At September 30, 2008, accrued employee benefits recorded on the Statement of Net Assets were for vacation pay and amounted to \$41,038.

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

G. CAPITAL LEASES

During the year ended September 30, 2007, the County entered into a lease agreement in the amount of \$128,487 for the purchase of a John Deere 770D. The County made a down payment of \$40,000 and the remainder will be paid in annual payments of \$20,653, including interest. The lease term is from 2007 to 2012. The lease agreement meets the criteria of a capital lease

During the year ended September 30, 2005, the County entered into an agreement with Digital Air Control, Inc. for the purchase of HVAC equipment, installation and warranty in the amount of \$132,264. The agreement calls for 6 annual payments of \$22,040 beginning in FY 2005 and final payment due in FY 2010. During the year ended September 30, 2007 the County made two payments; therefore, the final payment will be in 2009.

Capital Lease requirements are as follows:

Year Ended September 30,	Principal	Interest	Total Requirements
2009	\$ 38,891	\$ 3,805	\$ 42,696
2010	17,732	2,921	20,653
2011	18,663	1,990	20,653
2012	19,238	988	20,226
Total	<u>\$ 94,524</u>	<u>\$ 9,704</u>	<u>\$ 104,228</u>

H. LOAN PAYABLE

During the year ended September 30, 2007, the County purchased a vehicle for the Sheriff's Department with a loan from the First National Bank, in the amount of \$25,000. Interest rate is 8.25%. Loan will be paid on October 21, 2007. This loan was paid in full during the year ended September 31, 2008.

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

I. **BONDS PAYABLE**

In April 2006, the County issued Certificates of Obligation in the amount of \$800,000 for paying all or a portion of the County's contractual obligations in connection with making renovations and additions to the Nolan County Coliseum, and to pay legal, fiscal and engineering fees in connection with that project.

In January, 1999, the County issued \$770,000 in General Obligation Bonds to advance refund \$740,000 of outstanding 1992 Series and 1993 Series bonds. The bonds issued consisted of \$740,000 of current interest bonds with a rate of 4.90%. The rates for the 1992 Series and 1993 Series bonds were 6.25% and 6.50%, respectively. This bond was paid in full during the year ended September 31, 2008.

Funds were deposited in an escrow fund with an escrow agent to provide for all future debt service payments on the 1992 Series maturing in 2005 and the 1993 Series maturing in 2008. The economic gain resulting from the refunding, measured by the difference between the present value of the debt service requirements of the Series 1999 bonds and the Series 1992 and Series 1993 bonds discounted at effective interest rate of the new bonds, amounted to \$50,951. The economic gain has not been recognized in the financial statements of the County.

The following are general obligation bond issues outstanding at September 30, 2008:

	Interest Rate	Date of issue	Date of Maturity	Bonds Outstanding
Certificates of obligation	4.250%	2006	2020	\$ 659,000

Debt service requirements are as follows:

Year Ended September 30,	Total Principal	Total Interest	Total Requirements
2009	\$ 43,000	\$ 28,008	\$ 71,008
2010	45,000	26,180	71,180
2011	47,000	24,268	71,268
2012	49,000	22,270	71,270
2013	51,000	20,187	71,187
2014-2018	290,000	66,469	356,469
2019-2020	134,000	8,585	142,585
Total	<u>\$ 659,000</u>	<u>\$ 195,967</u>	<u>\$ 854,967</u>

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

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

Long-term debt activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds, Loans and Leases Payable:					
General Obligation Bonds	\$ 766,000	\$ -	\$ 107,000	\$ 659,000	\$ 43,000
Capital Leases Payable	132,575		38,051	94,524	38,891
Loan Payable	25,000		25,000		
Total Bonds, Loans and Leases Payable	923,575		170,051	753,524	81,891
Other Liabilities:					
Compensated Absences	39,638	1,400	-	41,038	-
Total Governmental Activities	\$ 963,213	\$ 1,400	\$ 170,051	\$ 794,562	\$ -
Long-term Liabilities					

K. **RISK MANAGEMENT/ SELF-INSURANCE**

Health Insurance

During the year ended September 30, 2008, employees of Nolan County were covered by a health insurance plan (the Plan). The County paid 100% of the health insurance premiums for its employees and a portion of the spousal and dependent coverage. The County also paid for employee dental care. Employees, at their option, authorized payroll deductions to pay any additional cost not paid by the County for dependent coverage. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Workers' Compensation

During the year ended September 30, 2008, employees of Nolan County were covered by a workers' compensation plan administered by the Texas Association of Counties. The County paid a contribution of \$46,400 for the year ended September 30, 2008. These figures are subject to change based upon actual payroll figures.

L. **RETIREMENT PLAN**

Plan Description:

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for administration of the statewide agent multiple-employer public employee retirement system consisting of 574 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, TX 78768-2034.

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

L. RETIREMENT PLAN, continued

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at age 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

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

Funding Policy:

The employer has elected the annually determined contribution rate (Variable Rate) plan 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 8.88% for the months of the accounting year in 2007 and 8.56% for the months of the accounting year in 2008.

The deposit rate payable by the employee members for calendar year 2008 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.

If a plan has had adverse experience, the TCDRS Act has provisions that allow the employer to contribute a fixed supplemental contribution rate determined by the System's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

Annual Pension Cost:

For the employer's accounting year ending September 30, 2008, the annual pension cost for the TCDRS plan for its employees was \$231,524 and the actual contributions were \$231,524.

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

NOLAN COUNTY, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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

L. RETIREMENT PLAN, continued

Actuarial Valuation Information:

Actuarial Valuation Date	12/31/05	12/31/06	12/31/07
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	20 years	15 years	15 years
Asset valuation method	long-term appreciation with adjustment	SAF: 10 years smoothed value EFS: Fund value	SAF: 10 years smoothed value EFS: Fund value
Actuarial Assumptions			
Investment Return	8.0%	8.0%	8.0%
Projected salary increases	5.3%	5.3%	5.3%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

Trend Information for the Retirement Plan
for the Employees of Nolan County, Texas

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/06	214,565	100%	-0-
9/30/07	236,459	100%	-0-
9/30/08	231,524	100%	-0-

V. COMMITMENTS AND CONTINGENCIES

A. Contingencies

The County participates in 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 of any money received may be required and the collectibility of any related receivable 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 grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

B. Litigation

The County Attorney has indicated that there is at least one lawsuit filed and pending against the County. The lawsuit is being strongly defended by the County. As of September 30, 2008, the potential liability of the County is not reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	6,117,080	7,236,811	1,119,731	84.53%	2,620,537	42.73%
12/31/06	6,692,001	7,602,462	910,461	88.02%	2,804,316	32.47%
12/31/07	7,245,354	8,193,058	947,704	88.43%	3,040,949	31.16%

NOLAN COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Modified Cash Basis	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 4,308,341	\$ 4,308,341	\$ 4,384,398	\$ 76,057
Other Taxes	20,000	20,000	35,890	15,890
Licenses and Permits	52,000	52,000	55,965	3,965
Intergovernmental Revenue and Grants	148,530	260,723	299,689	38,966
Fines and Fees	820,100	820,100	910,455	90,355
Investment Earnings	100,000	100,000	123,068	23,068
Rents and Royalties	15,420	15,420	13,870	(1,550)
Other Revenue	45,188	45,188	49,335	4,147
Total Revenues	5,509,579	5,621,772	5,872,670	250,898
EXPENDITURES:				
Current:				
General Government	1,424,295	1,431,545	1,200,414	231,131
Judicial Administration	769,367	786,817	759,258	27,559
Legal	302,056	307,784	292,535	15,249
Financial Administration	368,397	369,097	360,928	8,169
Public Facilities	573,355	571,355	434,805	136,550
Public Safety	1,449,728	1,617,794	1,497,369	120,425
Health and Welfare	383,092	383,092	345,901	37,191
Extension Service	91,822	91,822	88,581	3,241
Intergovernmental:				
Intergovernmental	143,621	143,621	133,745	9,876
Total Expenditures	5,505,733	5,702,927	5,113,536	589,391
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,846	(81,155)	759,134	840,289
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	1,575	1,575
Transfers In	(75,000)	(75,000)	-	75,000
Transfers Out (Use)	(91,977)	(66,977)	(4,887)	62,090
Total Other Financing Sources (Uses)	(166,977)	(141,977)	(3,312)	138,665
Change in Fund Balance	(163,131)	(223,132)	755,822	978,954
Fund Balance - October 1 (Beginning)	3,092,931	3,092,931	3,092,931	-
Fund Balance - September 30 (Ending)	\$ 2,929,800	\$ 2,869,799	\$ 3,848,753	\$ 978,954

NOLAN COUNTY, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FARM TO MARKET - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Modified Cash Basis	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 379,625	\$ 379,625	\$ 385,054	\$ 5,429
Licenses and Permits	425,000	425,000	403,449	(21,551)
Intergovernmental Revenue and Grants	25,000	25,000	33,617	8,617
Fines and Fees	133,000	133,000	135,605	2,605
Investment Earnings	23,000	23,000	2,234	(20,766)
Other Revenue	-	-	170,228	170,228
Total Revenues	985,625	985,625	1,130,187	144,562
EXPENDITURES:				
Current:				
Farm to Market	1,552,755	1,552,755	1,095,691	457,064
Total Expenditures	1,552,755	1,552,755	1,095,691	457,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(567,130)	(567,130)	34,496	601,626
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	8,105	8,105
Total Other Financing Sources (Uses)	-	-	8,105	8,105
Change in Fund Balance	(567,130)	(567,130)	42,601	609,731
Fund Balance - October 1 (Beginning)	55,175	55,175	55,175	-
Fund Balance - September 30 (Ending)	\$ (511,955)	\$ (511,955)	\$ 97,776	\$ 609,731

**NOLAN COUNTY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2007**

I. BUDGETARY DATA

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

1. The County Judge, as budget officer, with the assistance of the County Auditor, prepares a budget to cover all proposed expenditures and the means of financing them, for the succeeding year and delivers the proposed budget to Commissioners' Court.
2. Commissioners' Court holds budget sessions with each department head.
3. Commissioners' Court holds budget hearings for the public at which all interested persons' comments concerning the budget are heard.
4. Commissioners' Court formally adopts the budget in the open court meeting.
5. The adopted budget becomes the authorization for all legal expenditures for the County for the fiscal year. Appropriations lapse at the end of the fiscal year.
6. The formally adopted budget may legally be amended by commissioners in accordance with article 689A-11 or 689A-20 of Vernon's Annotated Civil Statutes.

An appropriate resolution (the appropriated budget) to control the level of expenditures must be legally enacted on or about September 1. The County maintains its legal level of budgetary control at the department level. Amendments to the 2008 budget were approved by the Commissioners' Court as provided by law. There were no General Fund expenditures over appropriations during the year ending September 30, 2008.

COMBINING STATEMENTS

NOLAN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
SEPTEMBER 30, 2008

	210 Jury Fund	215 Law Library Fund	220 Hot Check Fund	225 D.A.R.E. Fund
<hr/>				
ASSETS				
Cash and Cash Equivalents	\$ 3,033	\$ 21,229	\$ 14,983	\$ 9,089
Investments - Current	-	-	-	-
Total Assets	<u>\$ 3,033</u>	<u>\$ 21,229</u>	<u>\$ 14,983</u>	<u>\$ 9,089</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	-	-
Records Management	-	-	-	-
Courthouse Security	-	-	-	-
JP Technology	-	-	-	-
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	3,033	21,229	14,983	9,089
Total Fund Balances	<u>3,033</u>	<u>21,229</u>	<u>14,983</u>	<u>9,089</u>
Total Liabilities and Fund Balances	<u>\$ 3,033</u>	<u>\$ 21,229</u>	<u>\$ 14,983</u>	<u>\$ 9,089</u>

235 County Records Management	240 County Clerk Records Management	245 District Clerk Records Management	250 Courthouse Security Fund	255 Justice of the Peace Technology	Total Nonmajor Special Revenue Funds	500 Debt Service	505 Coliseum '06 Interest and Sinking Fund
\$ 4,742	\$ 11,276	\$ 1,234	\$ 141,291	\$ 82,939	\$ 289,816	\$ -	\$ 3,761
-	-	-	-	-	-	-	169,157
<u>\$ 4,742</u>	<u>\$ 11,276</u>	<u>\$ 1,234</u>	<u>\$ 141,291</u>	<u>\$ 82,939</u>	<u>\$ 289,816</u>	<u>\$ -</u>	<u>\$ 172,918</u>
-	-	-	-	-	-	-	172,918
4,742	11,276	1,234	-	-	17,252	-	-
-	-	-	141,291	-	141,291	-	-
-	-	-	-	82,939	82,939	-	-
-	-	-	-	-	48,334	-	-
<u>4,742</u>	<u>11,276</u>	<u>1,234</u>	<u>141,291</u>	<u>82,939</u>	<u>289,816</u>	<u>-</u>	<u>172,918</u>
<u>\$ 4,742</u>	<u>\$ 11,276</u>	<u>\$ 1,234</u>	<u>\$ 141,291</u>	<u>\$ 82,939</u>	<u>\$ 289,816</u>	<u>\$ -</u>	<u>\$ 172,918</u>

NOLAN COUNTY, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
SEPTEMBER 30, 2008

	Total Nonmajor Debt Service Funds	600 Library Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 3,761	\$ -	\$ 293,577
Investments - Current	169,157	-	169,157
Total Assets	<u>\$ 172,918</u>	<u>\$ -</u>	<u>\$ 462,734</u>
Fund Balances:			
Reserved For:			
Debt Service	172,918	-	172,918
Records Management	-	-	17,252
Courthouse Security	-	-	141,291
JP Technology	-	-	82,939
Unreserved and Undesignated:			
Reported in the Special Revenue Fund	-	-	48,334
Total Fund Balances	<u>172,918</u>	<u>-</u>	<u>462,734</u>
Total Liabilities and Fund Balances	<u>\$ 172,918</u>	<u>\$ -</u>	<u>\$ 462,734</u>

NOLAN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	210 Jury Fund	215 Law Library Fund	220 Hot Check Fund	225 D.A.R.E. Fund
REVENUES:				
Taxes:				
Hotel/Motel Tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	-	-	-
Fines and Fees	660	6,300	48,429	-
Investment Earnings	19	-	-	-
Other Revenue	6,562	-	-	-
Total Revenues	<u>7,241</u>	<u>6,300</u>	<u>48,429</u>	<u>-</u>
EXPENDITURES:				
Current:				
General Government	-	-	-	-
Judicial Administration	11,980	6,669	-	-
Legal	-	-	43,799	-
Public Safety	-	-	-	3,079
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>11,980</u>	<u>6,669</u>	<u>43,799</u>	<u>3,079</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,739)</u>	<u>(369)</u>	<u>4,630</u>	<u>(3,079)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	4,000	-	-	-
Total Other Financing Sources (Uses)	<u>4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(739)	(369)	4,630	(3,079)
Fund Balance - October 1 (Beginning)	<u>3,772</u>	<u>21,598</u>	<u>10,353</u>	<u>12,168</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,033</u>	<u>\$ 21,229</u>	<u>\$ 14,983</u>	<u>\$ 9,089</u>

235 County Records Management	240 County Clerk Records Management	245 District Clerk Records Management	250 Courthouse Security Fund	255 Justice of the Peace Technology	Total Nonmajor Special Revenue Funds	500 Debt Service	505 Coliseum '06 Interest and Sinking Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,627
-	-	-	-	-	-	1,750	-
9,428	17,928	1,538	18,801	12,718	115,802	-	-
-	-	-	252	-	271	1,960	4,690
-	-	-	-	-	6,562	-	-
9,428	17,928	1,538	19,053	12,718	122,635	3,710	137,317
11,818	39,939	-	-	-	51,757	-	-
-	-	-	9,877	-	28,526	-	-
-	-	1,116	-	-	44,915	-	-
-	-	-	-	7,576	10,655	-	-
-	-	-	-	-	-	65,000	42,500
-	-	-	-	-	-	3,185	29,793
11,818	39,939	1,116	9,877	7,576	135,853	68,185	72,293
(2,390)	(22,011)	422	9,176	5,142	(13,218)	(64,475)	65,024
-	-	-	-	-	4,000	887	-
-	-	-	-	-	4,000	887	-
(2,390)	(22,011)	422	9,176	5,142	(9,218)	(63,588)	65,024
7,132	33,287	812	132,115	77,797	299,034	63,588	107,894
\$ 4,742	\$ 11,276	\$ 1,234	\$ 141,291	\$ 82,939	\$ 289,816	\$ -	\$ 172,918

NOLAN COUNTY, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Total Nonmajor Debt Service Funds	600 Library Capital Projects	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Hotel/Motel Tax	\$ 132,627	\$ -	\$ 132,627
Intergovernmental Revenue and Grants	1,750	-	1,750
Fines and Fees	-	-	115,802
Investment Earnings	6,650	-	6,921
Other Revenue	-	-	6,562
Total Revenues	<u>141,027</u>	<u>-</u>	<u>263,662</u>
EXPENDITURES:			
Current:			
General Government	-	95	51,852
Judicial Administration	-	-	28,526
Legal	-	-	44,915
Public Safety	-	-	10,655
Debt Service:			
Principal	107,500	-	107,500
Interest	32,978	-	32,978
Total Expenditures	<u>140,478</u>	<u>95</u>	<u>276,426</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>549</u>	<u>(95)</u>	<u>(12,764)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	887	-	4,887
Total Other Financing Sources (Uses)	<u>887</u>	<u>-</u>	<u>4,887</u>
Net Change in Fund Balance	1,436	(95)	(7,877)
Fund Balance - October 1 (Beginning)	<u>171,482</u>	<u>95</u>	<u>470,611</u>
Fund Balance - September 30 (Ending)	<u>\$ 172,918</u>	<u>\$ -</u>	<u>\$ 462,734</u>

OTHER INFORMATION REQUIRED BY GAO

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Nolan County, Texas** as of and for the year ended September 30, 2008, which collectively comprise **Nolan County, Texas'** basic financial statements and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **County's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **County's** internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the **County's** internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Nolan 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 and state 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., P.C.

DAVIS, KINARD & CO., P.C.

Abilene, Texas
January 21, 2009

NOLAN COUNTY

2008 AUDIT REPORTING PACKAGE

September 30, 2008

NOLAN COUNTY

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Appendix C – Internal Control Related Matters.....	7

Required Communications

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

We have audited the financial statements of Nolan County, Texas for the year ended September 30, 2008 and have issued our report thereon dated January 21, 2009. Professional standards require that we provide you with the following information related to our audit:

Area	Comments
Auditors' Responsibilities Under United States Generally Accepted Auditing Standards	
In order for those charged with governance to understand the nature of assurance provided by an audit, the auditor should communicate their responsibilities under United States Generally Accepted Auditing Standards.	As stated in our engagement letter dated August 8, 2008, our responsibility as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.
Significant Auditing Findings	
<i>Qualitative Aspects of Accounting Practices</i>	
Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement contract, we will advise management about the appropriateness of accounting policies and their application.	<p>The County's significant accounting policies are described in the notes to the financial statements. As part of our audit, we reviewed the accounting policies followed by management in preparing the financial statements. We believe the accounting policies of the County are consistent with industry practice and are in accordance with generally accepted accounting principles.</p> <p>No new accounting policies of significance were adopted and the application of existing policies was not changed during the year ended September 30, 2008. We noted no transactions entered into by the County during the year ended September 30, 2008 for which there is a lack of authoritative guidance or consensus. In addition, we noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.</p>

Significant Auditing Findings - continued*Qualitative Aspects of Accounting Practices - continued*

Accounting estimates are an integral part of the financial statements that require management's judgments based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events affecting them may differ significantly from management's expectations.

The most sensitive estimates affecting the financial statements were:

- We believe that the estimate of future useful lives of fixed assets is a particularly sensitive accounting estimate. Management's estimate is based on knowledge and experience about past and current events and assumptions about future events. We evaluated the key factors and assumptions used to develop the estimated useful lives of fixed assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- The estimated for uncollectible taxes receivable is also a sensitive accounting estimate. Management's estimate is based on the experience of past and current collections of tax levy. We evaluated the key factors used to develop the estimated uncollectible taxes receivable and determined they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users.

The most sensitive disclosures affecting the financial statements were:

- Changes in Long-Term Liabilities – Information for this disclosure is based on beginning balances of debt and the current principal payments and any additions to principal. The disclosure provides a detailed look at the debt of the County.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report.

We are pleased to report that no such disagreements arose during the course of our audit.

**Other Information in Documents
Containing Audited Financial
Statements**

The auditor has a responsibility with respect to information in a document prepared by the County that contains the audited financial statements.

We are not aware of any document prepared by the County that will incorporate the audited financial statements.

**Planned Scope and Timing of the
Audit**

It is the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence. However, communication with those charged with governance may assist in understanding better the consequences of the auditor's work for their oversight activities.

We performed the audit according to the planned scope and timing previously communicated to you in our letter dated August 8, 2008.

**Consultation with Other
Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

The auditor is required to inform those charged with governance of any major issues, including any discussions regarding the application of accounting principles or auditing standards that were discussed with management in connection with the initial or recurring retention of the auditor.

There were no such matters discussed with management prior to our initial or recurring retention as the County's auditors.

Difficulties Encountered in Performing the Audit

The auditor should inform those charged with governance of any difficulties encountered in dealing with management related to the performance and completion of the audit.

We encountered no significant difficulties in dealing with management in performing and completing our audit. Management of the County did a commendable job in preparing for the audit. They prepared the requested schedules and documents in a timely manner and were available for questions at all times.

Management Representations

The auditor is required to inform those charged with governance that certain representations are being requested from management in connection with the audit.

We have requested certain representations from management that are included in the management representation letter dated January 21, 2009.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Appendix A, Summary of Audit Adjustments, summarizes misstatements detected as a result of audit procedures that were corrected by management.

Appendix B, Summary of Proposed but Unrecorded Journal Entries, summarizes uncorrected misstatements of the financial statements.

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

If you have any questions regarding the above, please do not hesitate to call.

Sincerely,



Davis, Kinard & Co., P.C.
Certified Public Accountants
Abilene, Texas
January 21, 2009

**NOLAN COUNTY
2008 Audit Reporting Package**

Appendix A

There were no audit adjustments to the financial statements.

**NOLAN COUNTY
2008 Audit Reporting Package**

Appendix B

There were no proposed but unrecorded journal entries in the current year.

NOLAN COUNTY
2008 Audit Reporting Package

Appendix C

In planning and performing our audit of the financial statements of Nolan County, Texas (the County) as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

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

Internal Controls over Agency Funds

As is common in Counties, there are several agency funds that are not recorded on the Counties financial reporting system. Because these agency funds are not monitored in detail during the year, the internal controls are not in place to prevent or detect misstatements on a timely basis. During our review of some of the agency funds, off the books, we noted that petty cash funds were kept within those offices. Those petty cash funds were not reconciled or properly accounted for. We also noted that as receipts came into those offices, petty cash would be deducted from the receipts before reporting them to the treasurer's office. This is not proper accounting and understates the receipts for those offices.

We suggest that cash reconciliations, petty cash reconciliations, and monthly listing of receipts be kept by the individual offices (agency funds) and provided to the treasurer on a monthly basis. This would provide the needed detail to monitor internal controls County wide, and prevent or detect misstatements on a timely basis.

We also suggest that a fraud policy be put into affect County wide. County funds are at high risk for fraud through misappropriation of assets. It is management's responsibility to understand and prevent these fraud risks to the best of their ability. In order to understand and prevent these fraud risks, the County should have a full description of the accounting policies and procedures within each office.

Recently issued Statement on Auditing Standards (SAS) 112 requires that we report these deficiencies. The SAS does not provide exceptions to reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

NOLAN COUNTY
2008 Audit Reporting Package

Appendix C - continued

We agree with the objective of SAS 112, to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the control deficiencies above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

As mentioned above, whether or not it would be cost effective to cure a control deficiency is not a factor in applying SAS 112's reporting requirements. Because prudent management requires that the potential benefit from an internal control must exceed its cost, it may not be practical to correct all the deficiencies an auditor reports under SAS 112. Accordingly, you may decide that curing the deficiencies described above would not be cost effective and take no action.

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